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THE PROCESS OF CAPITAL FORMATION AND ITS RELATION TO INEQUALITY

A Critique of Harold G. Moulton's *The Formation of Capital*[1]

If Moulton's theories are correct, the price system is lacking in inner consistency; but there are errors in his analysis. His argument for the alleged dilemma of saving ignores current theories as to the function of interest in balancing the demand and supply of capital. In holding that increase of capital must be accompanied by increased expenditure for consumption, he confuses absolute with relative savings and consumption, and he overlooks the lowering of costs made possible by more capitalistic methods and by technological progress. The supposed escape afforded by bank credit expansion is illusory. In asserting that inequality causes excess saving simultaneously with deficient consumption he overlooks the vast possibilities of extravagant consumption. It is more likely that the rich save for expected earnings than by necessity or habit. The theory that the stock market dissipates savings for which there is no profitable use involves the dubious assumption that people will bid up stock prices when expecting a decline in earnings.

Dr. Moulton's comment follows.

With the publication of the fourth volume in the Brookings Institution series of studies dealing with "The Distribution of Wealth and Income in Relation to Economic Progress," it is appropriate to examine the theory underlying the investigation. This theory is set forth in the third volume of the series, written by Harold G. Moulton and entitled *The Formation of Capital*. It is important to examine this theory with care because of the wide publicity which has been given to it by the Brookings Institution and the Maurice and Laura Falk Foundation. When endowments or special grants make possible the wide dissemination of definite conclusions on a controversial question, especially when they are made to appear authoritative findings established by scientific research, it is all the more necessary that those conclusions be given the most searching and critical analysis by impartial and competent critics. Indeed, it is unfortunate that such studies are not subjected to the scrutiny of economists at large before being widely disseminated among the general reading public.

It is to be noted that the series of studies "was undertaken for the purpose of exploring a particular hypothesis, relating to the effect of wealth

[1] This essay is an extension of the remarks made by the writer at a round-table discussion of *The Formation of Capital* at the annual meeting of the American Economic Association in New York on December 28, 1935.

distribution upon national productivity."[2] Again, "We raise the fundamental question whether the existing method of distributing the national income tends to evoke from our productive resources the greatest flow of goods and services of which they are capable. Or, do certain of our practices in the distribution of wealth introduce maladjustments into the productive system which tend to interfere with its most successful functioning?"[3] Thus, it appears that the studies were entered upon with a definite hypothesis in mind and, presumably, in the hope that the statistical findings would support it. This hypothesis or theory will now be examined.

The theory appears to center mainly in two propositions: the alleged dilemma of saving, and the under-consumption which is supposed to result from inequality. According to the first, society can save more only if it consumes less, but it can use the savings productively only if it consumes more; hence it is confronted with an impasse. According to the second, the rich have more than they can consume, so they of necessity save the surplus; but, since our income is distributed so unequally that the masses have not purchasing power to buy the increased output which such thrift makes possible, the savings must be wasted.

Now, if these propositions are true, they seriously undermine a basic tenet of established economic theory. Hitherto it has been held that the function of the price system is so to direct the productive resources of society as to maintain a balance between the demand for goods and the amounts produced. The rates of interest which prevail in the loan market for capital are themselves prices which constitute a part of this interdependent system, and these rates are supposed to contribute to the balance, not only by directing investment into the channels where there is the greatest demand for it, but by tending toward an equilibrium between the aggregate amounts of savings and consumption.[4] If there is no tendency toward such a balance, if the ordinary process of saving leads to disequilibrium, and if this maladjustment is aggravated by that very inequality of incomes which results from the pricing process, then the price system is lacking in inner consistency and contains such contradictions as to be destructive of order. It can no longer be relied upon to guide production and consumption; and we must find some other mechanism of control. In short, if the propositions held by Moulton and his associates are true, a large part of economic theory must be rewritten. On the other hand, if economists are correct in holding to their long established view that there are equilibrating influences in the price system that tend to keep savings, production, and consumption in

[2] Harold G. Moulton, *Income and Economic Progress*, p. 169.

[3] Edwin G. Nourse and associates, *America's Capacity to Produce*, p. 16.

[4] For good statements of this view see G. Cassel, *The Nature and Necessity of Interest*, especially chap. 2, par. 4; H. D. Henderson, *Supply and Demand*, chap. 8; and Edwin Cannan, *Wealth*, chap. 7.

balance, then there must be some error in the reasoning of the Brookings economists.

It is to be noted that their argument is deductive in character. To be sure, in the first two volumes of the series, a great deal of statistical data was presented tending to establish the conclusion that our production is not up to our capacity even in prosperous years, and that the American people are capable of consuming far more than we have ever been able to produce. The reliability of these statistics and the validity of those conclusions are not here in question. However, the problem is to explain why the discrepancy between consuming power and production exists. The statistics show that our income is unequally distributed, but they do not prove that this inequality is the cause of the inadequate production. That remains an inference whose correctness must be subjected to the test of analytical reasoning. There are also statistics in *The Formation of Capital* which shed some light on certain details of Dr. Moulton's presentation. His data relating to the production of consumption goods and capital goods will be commented on in a later paragraph. The other statistics do not pertain to the main argument.

The present writer believes that there are at least four errors in Moulton's analysis: (1) The whole question of interest, and the part which it plays in governing the demand for and supply of savings, is practically ignored, an omission for which no adequate justification is offered, but which is vital to the problem. (2) The part played by technological progress in stimulating both consumption and capital formation has been largely overlooked, yet this was a dominant factor in the very periods covered by the studies. (3) Relative amounts of savings and consumption are confused with absolute amounts. (4) Finally, the argument relating to under-consumption is based on the implicit assumption that there are finite limits to human wants. Because of these errors, established theories are misstated and wrongly criticized, while Moulton's own conclusions are seriously weakened, if not destroyed.

As an illustration of this last statement, in contrasting the supposed dilemma of thrift with the prevailing view of capital formation, there is attributed to orthodox economists the belief that savings are accumulated and transformed into capital goods arbitrarily, without reference to prospective earnings.

> In emphasizing the individual as the center of economic organization, classical writers ignored the process by which money savings are transformed into actual capital equipment. That is to say, they failed to consider the forces which determine whether it will be profitable to utilize money savings in the construction of new equipment. They simply assumed that when an individual decides to save rather than to spend, he merely exercises a demand for capital goods rather than for consumption goods. . . . This analysis, it will be seen, involves the as-

sumption that the demand for capital goods flows directly from the individuals who save. Such an assumption is, however, clearly not in accordance with the actual situation. . . . The demand for capital goods is a derived demand—derived, that is, from the demand for consumption goods.[5]

It is possible that such a view may seem to be implied in the theory of capital formation as stated by some writers, yet a wider acquaintance with economic literature cannot fail to reveal that such an interpretation of contemporary theory is extremely superficial. It is no doubt true that most writers on capital have assumed money savings to be always transformed into capital goods (although hoarding has long been recognized as an exception); but it cannot fairly be said that they construe savings as a direct demand for new capital goods, nor is it correct to state that they have ignored the question of profitability. Such statements are the result of not giving sufficient consideration to the prevailing theory of interest.

That theory definitely recognizes that two groups of persons are involved in the loan market, borrowers and savers. It is the savers who supply the funds for investment, but it is the borrowers who make the conversion of such savings into actual capital equipment. The prospects for profitable utilization of such equipment, far from being ignored, are definitely included in the theory. This appears on the demand side of the problem. The principal borrowers of savings are enterprisers whose demand-prices are based on the yield which they expect to derive from the capital at their command. Furthermore, while the field for profitable investment is construed to be wide, it is recognized as subject to a law of diminishing returns, so that, as savings increase, the demand price in the loan market will fall and consequently the rate of interest likewise. It is this fall in the interest rate which tends to check any wide disparity between savings and investment. For, as the rate falls, not only does the field for the profitable utilization of capital widen tremendously (as Cassel has convincingly shown)[6] but further accumulation of savings is at the same time discouraged.

All this is clearly to be found in contemporary literature. Why then has Dr. Moulton so lightly disregarded it?[7] From his remarks at a round-

[5] *The Formation of Capital*, pp. 41-42.

[6] G. Cassel, *op. cit.*, especially chap. 3.

[7] The whole question of interest rates is dismissed with one paragraph, which reads as follows: "They [the traditional theorists] argued that an individual would save more or less, depending upon the rate of interest which he might obtain on his savings; but they gave little consideration to the processes involved in the transmutation of pecuniary savings into capital equipment. Indeed, the classical economists were concerned chiefly with the phenomenon of interest rather than with capital formation—which they assumed occurred automatically, once pecuniary savings had been effected. They asked, Why is interest paid on capital? And they usually argued that it was a reward to the individual for abstinence from consumption, or in any event a necessary inducement to the foregoing of present satisfactions. If one is to deny himself consumptive pleasures at

table discussion of this subject at a meeting of the American Economic Association in New York in December, 1935, the omission appears to be due to his belief that interest has very little to do with savings. He argued that a large part of savings comes from the very rich as a matter of habit and not because of the inducement of interest, and furthermore, that a great deal of savings is invested in shares of stock which do not bear interest. The question of the relation between interest rates and the savings of the very rich is a moot one to which more attention will be devoted in this paper. I do not believe that the interest rate can be dismissed as a factor in such cases. As to investment in stocks, it seems clear that implicit interest is an important factor in the situation. The mere fact that no contractual interest payment is involved does not dismiss the rate of interest from the picture. Investors may be presumed to compare the prospective dividends on stocks with the explicit interest which can be derived from bonds or mortgages, and if the stocks do not seem to offer a prospective yield as great as or greater than that which can be derived from contractual debts, it is hardly likely that investors will purchase them. This also is a well recognized part of contemporary teachings and should at least be given careful consideration. Certainly the easy dismissal of interest from the reasoning without more extended analysis can readily lead to erroneous conclusions.

Moulton's case for the dilemma rests in the assertion that more capital cannot be utilized unless there is, at the same time, an increase in expenditures by consumers. The reasoning is that since more consumers' goods will eventually result from the increased capital, there must be an assured market for such goods if the investment is to be made attractive. However, this does not mean that there must be an increase in the *aggregate volume* of consumers' expenditures; it is not necessary for consumers to spend more than they formerly did in order to buy the new goods at prices which will cover their cost of production. As explained by Böhm-Bawerk, increased investment of capital in production is equivalent to a growth in the roundaboutness of the process. The more roundabout it is, the greater the product, which means that, with a given expenditure for labor and land, a larger product can be obtained if the process is more roundabout than if it is less so. The only increase in cost necessary to obtain such augmentation of product is the saving and waiting involved. In the price system this cost appears as interest. It follows, then, that extra goods obtained by more capitalistic methods of production are procured without any increase in total costs except for interest. Therefore, if the rate of interest falls, as it may be expected to do when savings increase, the slightly reduced volume

the moment, he must be reasonably assured of larger satisfactions in the future—satisfactions made possible by the productivity of the capital goods resulting from savings." *The Formation of Capital*, p. 38.

of consumptive expenditures occasioned by the increased saving may still be sufficient to buy the total product without loss to the investors.

There are always many potential ways of increasing the roundaboutness of production which can be adopted profitably when the interest rate is lowered; this has been convincingly argued by Cassel in his able works on *The Nature and Necessity of Interest* and *The Theory of Social Economy*. To deny it would be to deny that there is any elasticity to the demand for capital, a proposition which few would be so hardy as to defend. Hence, so long as the interest rate is flexible enough to keep the demand for savings in balance with the supply therof, no dilemma should appear.

Current theory would not deny the possibility of over-saving. It is possible for the supply of savings to be so large that the return obtainable for their investment would not sufficiently compensate the savers for their abstention from consumers' goods. The case does not differ in principle from that of commodity markets. More coal may be produced, for instance, than can be sold at a price which will recompense the producers for their costs. In both cases, the disequilibrium is revealed by the decline in the price obtained; and this very drop in price sets in motion the forces which restore the balance. Given correct anticipation of demand by producers and savers, such a situation would not arise. But the current theory differs from Moulton's position in this essential respect: it holds that equilibrium is possible and that correct adjustment between saving and spending will be attained, whereas Moulton denies that an equilibrium is possible, arguing that the very process of saving involves a contradiction in the price system itself. If his argument is correct, there could never be any increase in the proportion of income saved as compared with that consumed which would not destroy equilibrium. This ignores the reduction of costs inherent in increased roundaboutness above referred to.

Furthermore, in a period of technological progress, the opportunities for escape from the supposed dilemma of savings are greatly increased by the reductions in cost of production made possible by science and invention. New processes call for more elaborate forms of capital; yet the resulting economies may be such that the increased product obtained could be sold profitably without any increase in the total of expenditures for consumers' goods. The dial telephone system is a good illustration of this. Dial telephones require an elaborate mechanical central exchange, involving the investment of large sums of money, yet the advantages and economies in the operation of such systems in large cities are such that telephone companies find it profitable to install them without any increase in telephone rates and even without any increase in total subscriber expenditures for telephone service. Such illustrations could be multiplied many times. Developments of this character, which are so numerous in modern times, could easily provide an outlet for more investment when aggregate con-

sumptive expenditures were actually declining. The Brookings investigators are well aware of the rapid changes in technology which took place in the years covered by their studies, yet strangely enough Moulton appears to have overlooked this possibility of escape from his dilemma. The dilemma could only exist if, with increased investment and a corresponding decrease in expenditures of consumers, costs did not fall. Inasmuch as costs do fall, both from the economies inherent in the roundabout process and from technological progress, the case for the dilemma is by no means proved.

Much significance is attached by Moulton to the fact that the production of both capital and consumption goods rises and falls simultaneously. He assumes that this is contrary to what one would expect from prevailing theory, for he attributes to other economists the view that an increase in capital formation necessarily involves a decrease in consumption. But this would be true only if the aggregate production remained at a constant level, as it would, for instance, in a stationary state. It is here that the confusion between absolute and relative saving occurs. Of course, in a period of increasing productive efficiency, both capital construction and the production of consumers' goods may be expected to grow. The important question is what changes in the *relative* shares of the national income devoted to these two kinds of production are taking place. The figures prepared by Moulton, at this point in his argument, shed no real light on the essential problem.[8] These figures consist of indices of the production of consumption goods and capital goods, respectively, for the years 1901-1913 and from 1919-1932. It is pointed out that there is a rough correspondence in their movements. That is, in years when there is an increase or decrease in consumption goods there is a similar rise or fall in the production of capital goods, and there is likewise some similarity in the rates of change of each from year to year. But even if the correspondence between the two figures were exact, it would not prove the contention that an increase in capital formation is possible only on the condition that there be a similar increase in consumption. All that it would prove is that, during the period covered by this study, there was no change in the proportion of the national income devoted to consumption and capital formation, respectively. This would not disprove the established theory that saving involves some curtailment of consumption, for it is a matter of the most elementary logic that, if the share of income devoted to savings is increased, the share expended on consumption *must* be relatively smaller. No amount of intellectual legerdemain can make it otherwise.

Yet it appears to be Moulton's view that, through the process of bank credit expansion, an increase in savings can take place without any diminution of consumption. He relies here upon the familiar phenomenon that the commercial banking system, through its power to expand credit in the

[8] *The Formation of Capital*, pp. 45-46.

form of loans to business men, can finance capital construction without the previous withdrawal from consumption of money income in consumers' hands.[9] Thus while Wicksell, Keynes, Robertson, Hayek, and others of their school are portraying the process of involuntary savings caused by bank credit expansion as a source of disequilibrium which may be an important source of cyclical maladjustment, Moulton appears to regard the same process as the only means of escape from disequilibrium. By this process, he contends, it is possible to have the cake and the penny too—to increase our savings without decreasing consumption. If he means relative savings and consumption, his position is clearly untenable. There cannot be a relative increase in savings and consumption at the same time. If he means absolute amounts, he has missed the essence of the problem. The alleged dilemma of savings would only appear when the *proportion* of our total income devoted to capital formation was increasing with a simultaneous decline in the *proportion* expended in consumption. One wonders whether Moulton believes that, if the banks were prohibited from the questionable practice of manufacturing purchasing power by the easy process of expanding loans (as it is likely they will be sooner or later), the progressive increase of both capital and consumption would necessarily stop. If so, few will agree with him. He cannot escape from his dilemma by so illusory a refuge. The true solution lies rather in the reduction of costs which follows from increasing roundaboutness and from technical progress.

Turn now to the other problem, the under-consumption which is alleged to result from inequality. This theory, long banished from the more "polite" economic circles, has lately taken on an air of respectability and is finding some support among economists of standing. It is alleged that the rich receive larger incomes than they can consume; therefore they save the surplus. Since the poor have not means to buy the increased output of consumers' goods which such surplus makes possible, it must be wasted. In its usual form, as the theory is expounded, for instance, by Foster and Catchings, the surplus is said to be expended in producing goods which are ultimately sold at a loss. Moulton's theory is slightly different; he holds that the goods are not actually produced but, in the absence of a profitable market for investment of the surplus funds in productive capital, the savings are dissipated in stock market speculation. There are thus two phases of the theory which should be examined: the supposed inability or unwillingness of the rich to spend all of their income in consumption, and the supposed dissipation of the surplus in the stock market.

To support the view here under discussion, it must be held either that the very rich have incomes larger than it is possible for them to spend in consumption, or that they are so accustomed, from habit, to saving a sub-

[9] *The Formation of Capital,* chap. 8.

stantial portion of their incomes that they will continue to do so regardless of prospective earnings. Let us examine the first possiblity. To support the view that the rich cannot spend in consumption all the money income they receive is to deny that human wants are capable of indefinite expansion. In view of the enormous possibilities which exist for extravagant and spendthrift consumption, I doubt this. It may be questioned whether there is any saturation point to our desires. But even if there be such, the surplus incomes of the few who attain it are hardly sufficient to cause over-saving. The figures of the Brookings study itself lend support to this statement. There is a table in *America's Capacity to Consume*[10] which indicates that in 1929 there were about 1,000 families in this country whose expenditures *for living expenses* (after savings were deducted) averaged a million and a quarter dollars each. Assuming that these figures are somewhere near correct, we know, then, that the upper possible limit of consumption is not reached until the income of the consumer is at least that large. If this is so there would appear to be no necessity for over-saving imposed by inability to consume until many more people get into the million-a-year class than are at present to be found there.

May it, nevertheless, be true that the rich have become so habituated to saving a considerable share of their incomes that they go on accumulating and investing irrespective of prospective earnings? Such a theory is within the bounds of possibility. In fact, current theory recognizes that some people would be willing to save even at negative rates of interest. The possession of large income is admittedly a factor making for willingness to save. As Irving Fisher puts it, the larger the size of the income the lower the rate of impatience of its recipient. It is theoretically conceivable that sufficient capital for the needs of industry might, under certain conditions, be provided at an extremely low rate of interest, although Cassel argues that the long-time rate of interest could not fall much below 3 per cent, because, if it did so, owners of capital would be likely to consume their principal in the form of annuities.[11]

However, all this is conjecture, and it is a conjecture difficult to reconcile with certain facts; for, if savings are supplied so freely by the well-to-do, why does not the rate of interest fall before a collapse occurs? One would suppose that, if capital was to be had almost for the asking, borrowers would be keen enough to obtain it on more reasonable terms. The fact that the interest rate rises preceding a collapse would seem to imply that the supply of capital was small in relation to the demand for it, rather than the reverse. A large volume of savings available for investment at very low rates of interest will hardly explain why the failure of business to provide a higher rate precipitates a collapse.

[10] P. 262.

[11] See *The Theory of Social Economy,* chap. 6, par. 25.

It is my belief that the rich save and invest, not because they are compelled by necessity or impelled by long established habit, but because they think there is a remunerative use for their savings. If they anticipated that their savings would be lost in whole or in part, they would consume more; or, perhaps, if they were determined to save "willy-nilly," the savings would be put into hoards, or into philanthropic investments, instead of into industrial channels. Savings available for production would then be less, until they became scarce enough to yield an attractive rate of interest. Given correct anticipation of yields, a balance between savings and consumption is compatible with any degree of inequality. This is not a justification of the wide differences in income which prevail in our society (I have elsewhere expressed my disapproval of such inequality)[12], but it is an argument against the theory under discussion.

Moreover, Moulton's theory as to the way in which the supposed excess of savings is wasted is hardly compatible with the rest of his argument. He believes that capitalists, seeing that the market for profitable investment of their funds in productive equipment is glutted, deliberately divert their investments into the stock market. The suggestion is that, as a result of this diversion, a considerable part of the money income stream is withdrawn from ordinary business channels and employed at bidding up the prices of securities; it is then ultimately destroyed by the collapse of the stock market and the attendant contraction of bank credit which ensues. It seems entirely possible for funds to be placed in the stock market and kept there by a continual turnover among the speculators, without returning to the ordinary channels of consumption or capital construction. Furthermore, it is possible for such funds to be destroyed by credit contraction when the stock market collapses. But what grounds are there for believing that such diversion of funds is the result of a deliberate effort to escape from glutting the capital construction market? Moulton asks us to believe that investors, seeing that the prospective yield from industrial equipment is declining, forthwith proceed to buy stocks in the very corporations which own this equipment. Is it reasonable to suppose that investors would expect stocks to go up when they expect the yield on stocks to go down? If the business world were aware that the field for capital construction was becoming saturated, would it not be more logical to expect prices of securities to decline? Instead of being forced into the stock market for want of any other outlet, is it not more likely that the funds expended in stock speculation are attracted thither by the lure of profits made possible by the boom?

Notwithstanding all the foregoing, an excess of savings is possible. As I have already stated, the prevailing theory does not deny it; it merely holds that the downward trend of interest rates would tend to forestall it, and that, if it occurs, it would be self-corrective. For, as the rate of return on investments declines, less is saved and more is spent until

[12] See R. T. Bye and W. W. Hewett, *Applied Economics*, 2nd ed., part iv.

balance is restored. Under what conditions would over-saving be most likely to arise? It might result from some rapid and violent change in institutions or habits, a change so great and quick that equilibrium could be disrupted before the corrective forces had time to assert themselves. A rapid shift in the distribution of incomes, suddenly raising large classes to a degree of prosperity to which they were unaccustomed, might be such a change. But, in such a case, it is not the *existence* of inequality, it is the *change* in it, that is responsible for the trouble. And if the inequality were permanent, people would soon adjust their spending and saving habits to the new situation, so that order would be restored. Also, some interferences with the smooth operation of the price system, such as an artificial manipulation of the interest rate, might disturb the balance between saving and consumption. No doubt the banks, by controlling their discount policy according to their reserves, instead of according to the demand and supply of savings, are such a disturbing influence. This is clearly recognized in the business cycle theories of Wicksell, Hayek and others, and in this respect their explanation is superior to that of Moulton, who seems to regard the banks as the one redeeming factor in the situation. But these theories recognize also that the equilibrating tendencies are at work. They do not deny that the price system has an inner consistency, and that the phenomena of saving and inequality are compatible with it.

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IN REPLY

Professor Bye has rightly sensed that if our analysis is correct a considerable part of economic theory must be rewritten. When one breaks new ground in any field of knowledge, he must, of course, expect his findings to be subjected to the closest scrutiny by members of his profession. He also has the right to expect that critics will approach their task in a spirit of objectivity and tolerance, with a view to a clear joining and clarification of issues. Professor Bye begins by stating that inasmuch as our conclusions conflict with the classical theory of capital formation, which he evidently regards as having once for all been established as true, there must be errors in our analysis, and that our whole approach has been unscientific. Moreover, he makes the charge that since we stated at the outset our intention to explore a hypothesis which had long been a subject of discussion, we were necessarily committed to that hypothesis and were bent on finding statistical data to support it. Since when, one must ask, has it become unscientific in the pursuit of knowledge to state in definite terms the problem on which light is sought, rather than proceed aimlessly in the assembling of data?

The proof of the charge that we show a bias which discredits our statistical findings must be sought in the statistical analysis itself. Unless a

critic is able to show that our data are inadequate or irrelevant to the issues involved, he cannot be regarded as having proved our conclusions false. Professor Bye makes no effort to appraise the significance of our statistical material. On the contrary, he seeks to avoid the responsibility of scrutinizing the data by asserting that the argument is essentially deductive.

It is true that in chapter 3, entitled, "Is There an Economic Dilemma?" we posed the problem of capital formation in analytical form, and simply as a question. Professor Bye has evidently been so preoccupied with this chapter and its possible implications that he has given virtually no attention to the statistical material which we employ in connection with the vital parts of our analysis. In *America's Capacity to Consume,* chapters 8 and 9, we present data with reference to the money savings of different income groups and the trend of aggregate money savings over a period of years. And in chapters 4 to 11 of *The Formation of Capital* we present data relating to each phase of the analysis. The only reference Professor Bye makes to these data is to the figures showing that capital formation and consumption tend to move together rather than in opposite directions; and he dismisses these figures because they do not show *relative* increases. They were not advanced as throwing light on *relative* changes; that problem was dealt with elsewhere.

We turn now to the four errors which Professor Bye finds in our analysis. They may most conveniently be considered in reverse order:

First, he says we assume that there are finite limits to human wants. In view of chapters 10 and 11 of *America's Capacity to Consume,* in which we emphasize and reiterate that the masses of the people have vast unfulfilled desires, it is difficult to understand this charge. In any event, Professor Bye goes on to argue that, since there is no reason why even the very rich should not spend all their income, there is no necessity for oversaving. While there may be no such *necessity,* the data conclusively show that as family incomes increase the greater becomes the proportion that is saved, and that those in the very high income classes divert substantial portions of their incomes to investment channels. We prefer to rest our analysis on what the facts show rather than on speculation as to what theoretically might be the case.

Our second alleged error is that relative amounts of savings are confused with absolute amounts. Again we must decline to accept the charge, which grows out of the reviewer's concentration on the preliminary chapter on the economic dilemma and his neglect of later chapters. Chapter 10 is directly concerned with the relative growth of savings and spending. In order that the transition might not escape the reader we stated:

> In chapter 3 we were concerned with analyzing what would happen on the side of capital formation if consumption were positively declining. Now we are to consider a situation in which the flow of funds into consumptive channels is actually increasing but at a less rapid rate than the flow into savings channels (p. 137).

The third error is that we overlook the rôle of technological progress. What Professor Bye evidently means is that we do not seem to realize that lowered costs resulting from technological advances will increase mass purchasing power and thus provide the essential markets. In view of our heavy emphasis upon this process in the final volume, we cannot agree that this contention is sustained. Some readers have erroneously concluded that we hold price reductions to be a panacea for the inequalities of income. We do not argue that this avenue provides a complete escape; other means of affecting the distribution of income would still be necessary.

Our final alleged error is in not admitting that the entire process of capital formation is automatically regulated by the interest rate. It is true that we did not discuss the implications of our analysis upon the theory of interest, for that would have carried us farther afield than we wished to go at the moment. Nor did we give detailed attention to the theory of interest as a regulator of capital formation; we did, however, make a careful appraisal in Appendix A of the best modern analysis of the relation of interest rates to the savings process—that by E. F. M. Durbin.

Our point of view with reference to the interest factor may be briefly stated as follows: If the interest rate did in fact automatically regulate the savings process, then no maladjustment between the volume of money savings entering investment channels and the flow of new security issues for purposes of capital expansion would ever occur; since the facts clearly show that there was a wide discrepancy, the interest rate was evidently not an effective regulator. Professor Bye fails to look at the evidence, and contents himself, in the main, with reëmphasizing the theory.

He raises one question, however, which seems to him unanswerable: "Why, if savings are supplied so freely, does not the rate of interest fall before a collapse occurs?" Professor Bye cites the rising interest rates of boom periods as evidence that the supply of investment money must be falling relative to the demand for it, rather than rising. His attention is here focussed on the short-term money market rate rather than on the yield on long-term investments. In 1929 the dividend yield on capital was in fact unprecedentedly low—as a result of the bidding up of stock prices. Yields on bonds outstanding were about normal and new bond issues were at ordinary rates. The high interest rates were confined to short-term funds; and they reflected federal reserve and commercial banking policy rather than any shortage of long-term investment money—for the facts show conclusively that the latter was redundant.

The reviewer also asks what ground there is for believing that investors, seeing that the market for profitable investment in productive equipment is glutted, would deliberately divert their investments into the stock market? Is it reasonable to believe that investors, seeing declining yields from industrial equipment, would forthwith buy the shares of companies owning such equipment? Here again there is confusion of thought.

The question at issue is what happens when the total volume of new securities issued to finance the construction of new capital is smaller than the total supply of investment funds. After the supply of *new issues* has been absorbed the alternatives for investors are (1) hoarding, and (2) buying securities *already outstanding*. The latter alternative seems obviously preferable. The facts show that the volume of savings seeking investment was for some years prior to 1929 substantially greater than the supply of new corporate issues for productive purposes; and the same situation exists today.

The fact that *new* capital construction is not proceeding apace does not mean, as Professor Bye implies, that the earnings of *existing* corporations are declining; they may even be increasing. It merely means that the profitable rate of expansion of capital is not equal to the supply of funds available for expansion. However, the result of the competition for existing securities is to raise their price and reduce the yield. This is the way in which an excess supply of money savings operates to reduce the rate of return on capital.

A brief comment is necessary with reference to Professor Bye's contention that we misrepresent the generally accepted theory of capital formation when we state that savings are construed as a direct demand for new capital goods. While different writers state the problem in somewhat different ways, it has been frequently stated that saved money constitutes a direct demand for capital goods. Statements of this sort will be found, for example, in Hayek, Anderson, and Paul H. Douglas, given in Appendix A.

Nor can we assent to the reviewer's statement that the traditional theory has always clearly envisaged the process of capital formation as involving a simultaneous increase in the production of both capital and consumption goods. To cite but a single illustration, Hayek argues that when savings are increased the prices of consumer goods fall, the prices of capital goods rise, and productive energy is *transferred* from the construction of consumer goods to capital goods. This entire approach is based upon the assumption that, since productive energy is normally 100 per cent employed, it is impossible to increase the output of capital goods unless the output of consumer goods is—for the time being—curtailed. The expansion of consumption has been regarded only as an ultimate result of the increased productive capacity. It has, moreover, been assumed that new capital construction might expand for considerable periods of time even though consumptive demand were declining. Some have even urged that the extension of the roundabout process may continue indefinitely without concurrent expansion of consumption. Available data afford no support to this view. We are glad to note that Professor Bye does not adhere to it.

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THE PROCESSING TAX ON WHEAT

This tax illustrates the other side of the doctrine that "the power to tax is the power to destroy." The processing of wheat was taxed 30 cents a bushel, or 51 per cent of the value of this grain at the time of the initial levy of the tax, not to cripple the industry of growing wheat but to aid it. This tax was on the whole collected efficiently, despite the difficulties that arose in its administration. Moreover, as measured by the ratio of the tax liability for processing wheat, to the number of bushels processed, the effectiveness of the administration of this tax was improved considerably by the Bureau of Internal Revenue in the second year of its levy. A large revenue was realized in both years. The economic effects of the processing tax on wheat were: a shifting forward of the burden of the tax; a small decline in the consumption of wheat; and possibly some contribution to economic recovery through the redistribution of credit resources brought about by the tax.

The processing tax on wheat became inevitable June 20, 1933, when the Secretary of Agriculture issued a proclamation that rental or benefit payments were to be made on that commodity. For, under the terms of the Agricultural Adjustment act, the proclamation would be succeeded by a processing tax effective at the beginning of the next marketing year.[1] The next steps, therefore, were the determination of the beginning of the marketing year, and the rate at which the tax was to be levied.

It was considered necessary that the effective date of the tax should correspond with the movement of the current crop which was forecast to dominate the market supply during the week before or that following July 10.[2] The decision was that July 9 would be satisfactory. A consideration of convenience also urged adoption of that date. July 9 fell on Sunday. The records of processors of wheat and holders of stocks of wheat products could, therefore, be cut off at the end of the week.

The decision on the beginning of the marketing year and hence on the effective date of the tax was reached June 23. Little time remained in which to issue regulations giving the rate at which the tax was to be imposed, the rules by which it was to be collected, and the factors for converting wheat products into wheat. All these were vitally necessary to the collection of the tax. Moreover, time was needed to instruct the tax collectors.

This requirement for haste raised a problem in computing the rate of the tax which, by the formula in the Agricultural Adjustment act, was to be the difference between the current farm and the parity price of wheat.[3] The base period price, 88.4 cents, was readily determined. It was simply th average farm price from July, 1909, to August, 1914. The latest farm price, that of June 15, was 58.7 cents. It was, however, necessary to multiply

[1] Sec. 9 (a) of original Agricultural Adjustment act.

[2] Two reasons accounted for the belief that the crop harvested in 1933 would move to market later than usual. These were: the use of more horsedrawn binders in the winter wheat region, thereby prolonging the harvest; and the official June forecast that Kansas, Texas, and Oklahoma would produce only 16 per cent of the wheat crop as compared with 32 per cent during the preceding four years. The fine weather for harvesting, then prevailing in the Southwest, was a factor on the other side.

[3] Sec. 9 (b) of the original Act.

the average price for the base period by the index number of the prices of commodities bought by farmers, and the latest one available was of March 15. It was, therefore, necessary to proceed on the basis of an estimate (101) which was used in the calculation as follows:

88.4 × 101 (per cent)	= 89.3 cents	(the parity price)
subtracting	58.7 cents	(the current price)
	30.6 cents	(the indicated rate of taxation)

The fraction was, however, disregarded as inconvenient, and the rate of the tax was fixed at 30 cents per bushel.

A 30-cent tax on a commodity selling for 58.7 cents is a levy of 51 per cent on its value. When to this fact two others are added—namely, that the commodity taxed was wheat, and that the tax was imposed at a time when the country was in the lower depths of a great depression, the significance of such a levy begins to be apparent. Taxes are usually revenue measures only. When they are made to serve the end of regulation, the purpose is usually that of limitation or of destruction. The processing tax on wheat, though yielding revenue, was also a regulatory device of large importance. It was the chosen instrument by which the Agricultural Adjustment Administration sought to restore economic equality to wheat farmers. The processing of their wheat was taxed 51 per cent of its value not to cripple the industry of growing wheat but to aid it. If the price of wheat had been higher and consequently the industry in better condition, the tax would have been lower. The very height of the tax was therefore an indication of the economic difficulties of wheat growing. This is the other side of the doctrine that "the power to tax is the power to destroy."

The regulations giving effect to the processing tax on wheat were signed by the Acting Secretary of Agriculture June 23 and approved by the President June 26.[4] The tax was to be levied on the standard bushel of 60 pounds. Factors for the conversion of wheat products into wheat were also given. By their use a floor stock tax, and an import compensating tax could be levied in terms of wheat content on a given weight of flour, bread, crackers, pretzels, or other products of wheat, and refunds could be made on the use of these foods by the indigent. The conversion factor, for example, of 100 pounds of crackers was 230. This meant that the tax or refund on this quantity was 230 per cent of 30 cents (the tax on wheat) or 69 cents. All the conversion factors rested on the basic ratio that 4.6 bushels of wheat were taken to equal 196 pounds of flour. The use of this ratio, which represented the average yield of flour, was agreed to by the milling and allied trades in an informal hearing with representatives of the government.

Considerable attention was given to the suggestion of the Millers' Na-

[4] Wheat Regulations, series i, June, 1933.

tional Federation made, after much cleavage of opinion in earlier discussions,[5] that the number of bushels of wheat processed be measured by the amount of flour resulting therefrom, that is, for each 196 pounds of flour produced, the tax be levied on 4.6 bushels of wheat. The millers pointed out (1) that this method would prevent a disturbance in the competitive situation for it would equalize the tax cost of the flour by making millers of high yield wheat pay slightly more than 30 cents a bushel, and conversely. They argued also (2) that the product basis of assessment was desirable from the point of view of equity in fulfilling existing contracts. Under Section 18 of the Act, the purchaser of flour ground under a contract existing on the effective date of the tax was obliged to reimburse the miller for the processing tax, unless this payment was expressly forbidden by the contract. This reimbursement would of necessity be on the basis of the conversion factor, for the purchaser would receive flour and not wheat. A miller whose wheat yielded less than 196 pounds of flour from 4.6 bushels of wheat would therefore not be repaid in full for his tax outlay, and conversely. Owing to the custom of wheat mills, especially large ones, to contract for the delivery of flour months in advance, this consideration was of real importance. In addition to these arguments of especial interest to them, the millers contended (3) that because of variations in moisture and dockage wheat could not be measured accurately for taxation.

The unit in the Agricultural Adjustment Administration responsible for wheat disagreed with the price analysis of the millers expressed in the first argument. It believed that the economic effect of the 30 cent tax would be equivalent to that of a 30 cent rise in the price of wheat, and that consequently any advantage in tax liability obtained by using a high yield wheat would disappear through competitive bidding. The third argument of the millers was held defective, for a means of measuring wheat had been found. The second argument was admitted to be valid and to call for a concession.[6] Considerable weight was attached to another element in the problem—namely, the possibility that the flour basis of measurement would encourage millers to produce as little low grade flour as possible in order to avoid payment of the tax, thereby reducing its yield. The wheat basis, on the other hand, would encourage extraction of all the flour, and, moreover, appeared to offer greater assurance of legality. Accordingly, it was decided that the tax should be measured by the weight of the wheat entering processing.

Problems of Administration

The processing tax on wheat went into effect on such short notice that the Bureau of Internal Revenue was unable to issue complete regulations

[5] For a summary of divergent views on this matter in the milling trade see J. S. Davis, *Wheat and the A.A.A.*, Brookings Institution, Washington, 1935, p. 193.

[6] It was granted. The processing tax on unfilled orders was measured in flour. See the *Northwestern Miller and American Baker*, Minneapolis, July 5, 1933, p. 32. See also issue of July 12, p. 96.

for making reports and payments until nine days after its initial levy.[7] During this period, the vast industry of milling wheat, marketing flour, and baking and selling the many foods in which flour is a constituent operated under a chill of uncertainty, for both the members of the trade and the collectors of internal revenue were uncertain as to the exact status of many important matters involved in the administration of the tax. Upon issuance of the regulations, these difficulties largely disappeared. Indeed, considering the newness of the tax, and the high rate at which it was levied, the administration of the processing tax on wheat operated smoothly and successfully from the beginning. Problems appeared but none were so serious as to threaten attainment of the revenue objective of the tax.

Soon after the tax was levied, and indeed at intervals throughout the period in which it was effective, the question of exemptions arose. The Act provided that processing for charitable purposes, and for use in the household of the producer, should be exempt from taxation. This exemption opened the way for interested persons and institutions to press for a liberal interpretation of charitable and producer uses. Schools, hospitals, homes for the aged, and the like, that dispensed charitable services urged the government that they be granted exemption from processing taxation on all purchases affected by these levies. The Bureau of Internal Revenue, however, consistently held that the charitable use of a product meant its use by the poor and indigent. Thus, not all flour sold to a charitable institution was exempt from the tax, for part was consumed by salaried attendants. Only that portion used by indigent inmates was exempt. The problem of producer exemption arose chiefly with respect to flour given in exchange for wheat. The Bureau of Internal Revenue ruled from the beginning that exemption could be had from the tax only in instances where the producer exchanged his wheat at the mill door for flour of the kind or grade that could be made from it. Thus, in order to obtain this exemption, a grower did not have to wait until his wheat was actually ground. The law did not require that the same flour be returned to the producer; it was satisfied with similar flour. This ruling was interpreted to permit a farmer to ship wheat to a mill and to receive flour in return, or to let him and his neighbors send a truck laden with bags of wheat marked with each producer's address, and to receive from the mill in return bags of flour of the requisite kind or quality similarly marked.

In 1935 there arose a demand to have this ruling liberalized further. The black rust had made much of the wheat in the Northwest so light that grinding it into flour was impracticable. Producers of such wheat sought to obtain an exemption when it was exchanged for flour. Considerable pressure was also exerted on the Administration to permit the State Mill of North Dakota to ship flour free of the tax to points throughout the state for the purpose of exchanging it with producers for their wheat.

[7] The *Northwestern Miller*, July 19, 1933, p. 146.

The Bureau of Internal Revenue ruled that if flour could be made from light-weight wheat,[8] even though that operation were impracticable commercially, the producer would be entitled to exemption, provided the flour received in exchange was of the same general type or kind as that which could be made from the wheat. Thus, under this ruling it was no longer necessary for the wheat delivered to a mill actually to be processed. The petition that the State Mill of North Dakota be permitted to ship flour for exchange at the car door was denied, largely for two reasons: the danger that the tax would be evaded by this means, it being no longer possible to trace the destination of the flour; and the certainty that private mills would ask for and be entitled to the same privilege, thereby to a considerable extent breaking down the system of marketing flour.

In 1934 and in 1935, the question of the rate of tax to be levied during the approaching marketing year came up for decision. On June 15, 1934, the difference between the parity and the current farm price of wheat was 28.9 cents. It was observed that this difference had varied considerably during the year, but nothing was discovered in the economic situation pointing to a greater average difference in the next year. Moreover, the reduction program in that year did not indicate the need for an amount of revenue greatly different from that used in the current year. Accordingly, it was recommended that business conditions be not disturbed by the slight change then possible in the rate of taxation. The 30 cent levy was continued.[9]

The issue whether the rate should be increased in 1935 was complicated by a number of factors. The difference between the current farm and the parity price was 35 cents as of June 15. Price experts forecast that the price of wheat during the ensuing marketing year would be low and declining, and on this basis estimated that the difference between the current farm and the parity price would average from 35 to 38 cents. The probability of this increased spread raised the question whether larger benefit payments ought to be made to induce more farmers to coöperate with the program, and consequently whether the processing tax should be increased to 35 cents a bushel. The possibility of this change in taxation also suggested the issue of the desirability of such a step in order to keep the rate flexible.

Certain considerations, however, were on the other side. In the first place, a given benefit payment was a larger proportion of the return per unit from a crop when the price of that crop was low than when it was high, and, consequently, in a time of low prices offered the farmer a greater incentive to coöperate with the control program. In the second place, the state of the budget was such that a larger benefit payment could be made without in-

[8] Various experimental results indicated that it could be made. This fact was taken into account in the ruling.

[9] In final analysis, the decision was that of the Secretary. One cannot, of course, look into the Secretary's mind and learn what moves him to action or lulls him to repose with reference to a particular problem. But one can report the recommendations made to him, the reasons supporting those recommendations, and his decision.

creasing the rate of the processing tax. Adjustment in the rate of the tax, on the ground that this change was necessary in order to effectuate the declared policy, could not, therefore, be sustained.[10] In the third place, the difference between the current farm and the parity price on the preceding June 15 had been less than the rate of tax, yet that rate had not been lowered. To have raised it at this time would have laid the Administration open to the charge of being willing to raise but not to reduce the tax. These were among the considerations that deterred it from increasing the rate of the processing tax on wheat, though it did increase the payment to growers from 29 cents a bushel to 33 cents.[11] This obligation could be financed by the proceeds of a 30 cent tax with some resort to the surplus in the wheat budget.

Perhaps the most troublesome problem that beset the collection of the processing tax on wheat was the point in the milling operation at which the weight of the wheat was to be taken for taxation. This difficulty was slow in developing, for its existence could be determined only by a field audit. But when the results of the audit became available, they disclosed that practice in reporting liability for payment of the tax was far from uniform. Some millers were reporting on the "packout" basis, that is, they were giving the combined weight of the products of the milling operation. Others were taking the weight of the wheat as of its entrance in the tempering bin for the addition of water, and were deducting the weight of all screenings whether removed before or after tempering. Still others were deducting only the weight of screenings obtained prior to tempering. Reporting practices were varied also by the returns of millers who weighed the wheat just before it entered the first break-roll, and then deducted an estimated allowance for the weight of moisture imparted to wheat by the tempering operation.

Such variations in reporting involved differences in payment which may have aggregated several millions of dollars. They were, moreover, sources of disturbance in the competitive situation, and of discontent with the tax. Their elimination was regarded as most necessary. Accordingly, an investigation of the problem was made by representatives of the Bureau of Internal Revenue and of the Agricultural Adjustment Administration. The evidence assembled indicated tempering as the point of first domestic processing.[12] The results of this study, however, never became effective.[13] The matter was held in suspension pending the decision of the Supreme Court on the constitutionality of the processing taxes.

[10] A change in the processing tax on wheat had to be founded on this ground (Section 9 (a)), for the other reasons on which a change might legally be based could not be made to apply to wheat.

[11] Press release of Agricultural Adjustment Administration, July 8, 1935.

[12] The Bureau of Internal Revenue had always so held. Moreover, the milling industry understood at the time the tax went into effect that the weight of the wheat was to be taken just before tempering. See the *Northwestern Miller* of July 12, 1933.

[13] They served a useful purpose, nevertheless, by making possible a more careful definition of the point of first domestic processing for rye when that tax went into effect.

The Yield of the Tax

The processing tax on wheat yielded a large revenue. During the first year in which it was effective, collections of $127,592,000 were paid into the Treasury, and the indicated liability of processors totalled $131,886,000.[14] The total indicated liability for payment is the better figure to use in measuring the number of bushels upon which this levy was made. The total of collections, when compared to that of liability, gives some evidence of the effectiveness with which the obligation to pay the processing tax on wheat was translated into actual payment. Both totals will be used here, each for its proper function.

The indicated liability of $131,886,000 must, however, be corrected for the floor stock and the import compensating taxes, and for a lag in reporting in order to obtain the amount levied on the wheat processed during the first year of the tax.[15] With these corrections made, the indicated liability becomes $126,000,000, thereby pointing to a levy on the processing of 420,000,000 bushels. The total milling during that year, as estimated by the Bureau of Agricultural Economics, was 492,012,000 bushels.[16] If from this total, the 11,341,000 bushels[17] that were processed in bond and an estimated 15,000,000 bushels of custom milling be subtracted, there remain 465,671,000 bushels on which the tax should have been levied. The administration of the tax, therefore, as measured by the ratio of indicated to legal liability was 90.5 per cent.

A similar computation indicates that the administration of the tax during the second year was approximately 94 per cent efficient. In view of the estimates employed, the ratio of efficiency for neither year can be regarded as absolute. Nevertheless, this comparison of ratios obtained by the same method suggests a marked improvement in administration. Such a gain is not, however, to be taken as the full measure of improvement reasonably to be expected if the tax had continued in effect. Both the definition of the point of first domestic processing, discussed earlier, and a check of exemptions for custom milling were in the offing. It seems safe to say that these steps would have resulted in greater efficiency of administration.

The next matter for examination is the collection of the tax. Perhaps the best test whether liability for its payment was translated into revenue is to be found in the ratio of cumulative collections to cumulative liability during the months preceding the injunctions restraining collection of the pro-

[14] Amounts paid and reported, respectively, on the processing of wheat and on wheat products imported from July 9, 1933, to July 1, 1934, and on stocks of wheat products existing on the effective date of the tax—data used corrected for time lag.

[15] The floor stock and the import compensating taxes were subtracted. The lag in reporting was estimated at $5,000,000, a figure which, from an inspection of the data, appeared to be conservative.

[16] *World Wheat Prospects*, September 27, 1934, p. 16.

[17] *World Wheat Prospects*, November 30, 1935, p. 22.

cessing taxes. From October, 1934, to May, 1935, the ratio of collection to liability was always 97 per cent or more, and in May it was 97.9 per cent. The remaining percentage could easily be accounted for by postponements, and by delays in the receipt or the recording of checks. It may be said, therefore, with substantial truth that the processing tax on wheat was collected.

The necessary data for separating the cost of collecting the tax on wheat from the cost of collecting the other processing taxes are not available but the Division of Finance of the Agricultural Adjustment Administration has reported the cost of collecting all the processing taxes. From July 9, 1933, to June 30, 1935, this cost averaged 0.69 per cent of the amount collected. The total dollars collected per processing tax return during seven of these months averaged $695. From wheat the average collection was $1,882, an amount of revenue exceeded only by that from the processing tax on cotton. In view of the relatively large amount of revenue per return received from the tax on wheat, it is scarcely reasonable to suppose that the cost of obtaining that revenue exceeded the average cost of collecting all the processing taxes, when both costs are expressed as a percentage of the revenue collected.

The Incidence of the Tax

The next matter for consideration is the effects of this tax, which imposed a penalty of 30 cents a bushel on the processing of a bushel of 60 pounds of clean wheat. These effects are to be examined with reference primarily to the incidence of the tax. The tax on wheat, being levied on the processing of that grain and at a high rate, was a heavy cost placed between the producer of wheat and the consumer of its products. How was it borne?

The processing tax on wheat went into effect July 9 in the midst of the harvest, and at a date on which newly threshed wheat predominated in the movement to market. The tax, therefore, could not have affected the number of bushels of wheat harvested and threshed.[18] That supply had already been determined by the acreage of wheat sown, and by the weather conditions under which it was grown and harvested. When added to the carryover from previous years, the total supply was indicated. The quantity of wheat available for use was therefore neither more nor less because of the tax.

In such circumstances, it might be expected at first thought that the burden of the tax would be on the farmer. For, irrespective of its degree, the presence of any elasticity whatever in the demand for wheat would indicate that the full quantity available would not be taken except at a discount in

[18] Except on the assumption that if it were shifted backward, the price of wheat would be less than the direct costs of harvesting, threshing, and hauling the wheat to market. The total of these costs in 1933, according to the U. S. Department of Agriculture, was approximately 20 cents a bushel. Much of this cost, however, was for unpaid labor on which a money valuation was placed. In view of the relationship existing between the price of wheat and the tax, and this cost so defined, there appeared to be no reasonable possibility of the tax affecting the supply of wheat.

price equal to the tax. Indeed, that is the meaning of elasticity. To hold otherwise is to change the meaning of this term.

The degree of elasticity, though it cannot affect the shifting of a tax levied with respect to a given supply of a commodity, does, however, indicate the *amount* of adjustment in the supply needed to shift the burden of the tax forward from the producer. For example, if 495,000,000 bushels of wheat would be bought for processing at 50 cents a bushel and 480,000,000 at 80 cents, a decrease of only 15,000,000 bushels would shift the burden of a tax of 30 cents a bushel forward. Accordingly, the possibility of shifting a tax forward becomes greater as the elasticity of the demand becomes less; not, however, because the effects of elasticity become less but because they can be counteracted more easily.

The bearing of this discussion on the problem is easily demonstrated. The demand in point is for wheat to be processed for domestic consumption—processing for export was exempt from the tax. This demand, being derived chiefly from that for bread, is relatively inelastic, for people in this country consume about so much bread regardless of price, and consequently the mills process about so much wheat with equal disregard of the price paid for it.[19] Hence, the addition of the tax to the price of bread could make but a relatively small difference in the quantity of wheat processed.

The problem for purposes of the issue of shifting is to determine in which direction the price-making forces would be expected to operate. In examining this question, it is necessary to introduce the other demands for wheat. He who buys wheat for processing must bid against all other demands for that commodity. Hence, at any given time, there is and must be a general equilibrium among all demands for wheat. The effect of the tax on the price for one use, processing, must therefore be examined in relation to the influence of this change on other uses. Thus, if the price of wheat should be lowered as a result of the processing tax, it would be expected that more wheat would be used for feed and that exports would increase. With a given fall in the price of wheat, the greater the amount that would be absorbed in these channels in relation to the quantity needing to be absorbed because of the impact of the tax, the less the decrease in that price is to be expected. For example, in a market in which a fall of 30 cents in the price of wheat would result in 20,000,000 more bushels being fed or exported, and a rise of that amount would result in a decrease of only 10,000,000 bushels in the domestic consumption of processed wheat, it is evident that the full processing tax of 30 cents a bushel could not be shifted backward.

The demand for wheat to be used as feed is clearly more elastic than the demand for bread. Animals are fed, not to gratify their tastes or to conform to their habits but to produce flesh or milk. Wheat is only one of many

[19] The declining trend of consumption of wheat products is not in point for consideration here.

feeds available for animals. A fall in the price of any one feed in relation to the prices of other feeds makes its use more profitable, and conversely. It would also be expected that because of a generally lower average income and a larger consumption of other bread grains, the foreign demand for wheat bread and consequently for wheat would be more elastic than the American demand.

These considerations, indicating that the burden of the processing tax on wheat probably rested in large part, at least, on consumers, are reinforced by inclusion of the effects of the wheat program. The processing tax on wheat was levied to provide funds for a control program designed to raise the price of wheat. Hence, an examination of the burden of this tax cannot be complete without taking into account the effects of the program.

The announcement of the determination to raise the price of wheat, coupled with a restriction of acreage in order to further that end, might be expected to have had some slight effect on the price in advance of any actual reduction in output. Still other factors in the program were the positive steps taken by the Administration to subsidize the export of wheat from the Northwest and thereby to prevent this wheat from being a factor in the domestic market, and the purchases of wheat for feed by the Federal Surplus Relief Corporation. Professor J. S. Davis concludes that the maximum effect of these various operations was to raise the average price of wheat during the 1933-34 crop year by 2 or 3 cents a bushel.[20] These price-raising influences clearly tended to shift the burden of the processing tax forward.

The conclusion that the incidence of the processing tax on wheat was on the consumer of its products does not rest on this generalized analysis alone but is also supported by evidence derived from other sources.

When the tax went into effect, the *Northwestern Miller* reported that millers added it to the cost of their wheat, and from this basis arrived at the prices of the various grades of flour as they had done before the tax was levied.[21] It reported also that the first quotations of many millers after the effective date of the tax showed an advance of $1.50 a barrel for all grades of flour. When on January 6, 1935, the tax was declared unconstitutional, the same publication reported considerable controversy between buyers and sellers of flour as to its price. Millers made concessions reluctantly and sales were small. The price of "clears" fell $1.00 a barrel by January 15. Further declines appeared during the next week, and buying continued to be below normal.[22]

Professor Davis found, by a statistical analysis, that upon the imposition of the tax, both the wholesale and the retail prices of flour and bread rose. After taking into account other factors responsible in part for the rise, he

[20] *Wheat and the A.A.A.*, p. 36. Chapter 11 is an excellent treatment of this problem.
[21] Issue of July 12, 1933, p. 96.
[22] Issues of January 15 and January 22, 1935, especially pages 172 and 230, respectively.

determined that, because of pyramiding, the total increase in the cost of flour and bread deriving from the tax was somewhat greater than the net amount of revenue obtained from it.[23]

Probably the most elaborate investigation of the incidence of this tax that has been made was by economists and statisticians of the Bureau of Agricultural Economics and the Agricultural Adjustment Administration.[24] This study showed, on the basis of a comparison between the prices of wheat and its products at Minneapolis and at Kansas City, that the millers did not bear the processing tax; for, upon its imposition, the margin between the cost of their raw material and the wholesale value of their product widened by approximately the amount of the tax, and continued to be so increased. A comparison was then made between the price of wheat in Chicago and in Liverpool. This comparison disclosed that the levy of the tax did not stop the rise in the price of wheat then in progress in the United States. Wheat rose in price more rapidly here than in Liverpool, and also more rapidly than an index number of the prices of five speculative commodities. With the collapse, in the latter part of July, 1933, of the temporary speculative boom in the United States, the price of wheat both here and in Liverpool fell, but the differential continued to be wider than before the decline set in.

The next step in this study was to examine the course of the prices of the products of wheat. It was found that from July 3 to July 18 the price at Minneapolis of the bran obtained from milling one bushel of wheat increased 1.8 cents, and the price of the middlings 2.1 cents. Thus the price of the offal from a bushel of wheat increased approximately 4 cents. But the prices of competing feeds, not subject to processing taxes, rose in about the same proportion. Such evidence points to the presence of a general influence that operated to increase the price of feed, not to an effect of the processing tax. The price of flour, on the other hand, rose upon the imposition of the tax by an amount approximately equal to the tax. It may be said then, in conclusion of this matter, that the statistical results agree with the economic expectancy that the incidence of the processing tax on wheat rested on the consumer of flour and bread.[25]

These comparisons whereby the incidence of the processing tax was indicated were made in terms of *average* prices only. It is, however, conceivable that with the average price of wheat remaining the same, the differential between low and high grades might have widened owing to the tax, with the result that producers of low grade wheat bore part of the burden imposed by this levy. To test this possibility, the results of milling low and high-grade wheat were examined, and a comparison of prices was made.

[23] *Wheat and the A.A.A.*, pp. 363 to 365.

[24] *Agricultural Adjustment, Report of the Administration of the Agricultural Adjustment Act, May, 1933, to February, 1934,* Washington, pp. 221-234.

[25] Other products such as yeast, paste, and liquor comprise so small a proportion of the total that they are disregarded.

A barrel of flour made from hard red spring wheat requires 5.20 bushels of wheat testing 51 pounds as compared with 4.60 bushels of wheat testing 60 pounds.[26] Since the test weights refer to the measured bushel, and the actual weights are the same (60 pounds) a comparison may be made directly between these quantities, indicating that 0.6 of a bushel more of wheat is required to mill a barrel of flour from the low test wheat. Upon that amount the tax was 18 cents. Thus, the tax disadvantage per bushel of the 51-pound wheat in relation to the 60-pound wheat was 18/4.6 or 3.9 cents. The corresponding advantage of the wheat testing 63 pounds over that testing 60 pounds is .17 of a bushel for a barrel of flour, which in terms of the processing tax was 5.1 cents or 1.1 cents per bushel of wheat.

Thus the difference in price, owing to the processing tax, between wheat testing 63 pounds and that testing 51 pounds could be 5 cents. Such a variation would, however, be only a small part of the total difference in price. Flour made from light weight wheat produces bread of poor color. Moreover, a larger quantity of low than of high-test wheat is required to yield a barrel of flour, and the cost of milling is higher. The possible difference in price of 5 cents should also be qualified by the observation that it is a variation between extremes. Usually only a small proportion of the total wheat supply tests 51 or 63 pounds. In practice, the range in yield between low and high-test wheat is much narrower though occasionally, as in 1916 and in 1935, some region of the country may have a large proportion of very low test wheat.

The next step in this phase of the analysis was to compare the monthly difference in a terminal market between the prices of No. 1 and No. 2 wheat for July, August, and September, 1933, with that difference for the same months of other years in the period 1930 to 1934, and to make a similar comparison of the difference for various grades of wheat in a farmers' market.[27] These comparisons indicated that the processing tax could have had at most only a slight effect on the spread between low-grade and high-grade wheat.

Effect of the Tax on Recovery

The burden of a tax is not, however, its sole economic effect. Inevitably, other effects follow the levy of a tax. It is now our task to examine the consequences of the redistribution of income that the processing tax on wheat brought about.

[26] *Wheat and Rye Statistics*, U.S.D.A. Bull. 12, Table 78, January, 1926. The results for soft red winter, white wheat, durum, and hard red winter were broadly similar. Intermediate weights were also noted.

[27] In Minneapolis, the terminal market chosen, daily closing prices of cash wheat for dark northern spring, durum, and northern spring were averaged to obtain the monthly difference. These prices were found in the *Annual Report of the Chamber of Commerce* of that city.

In Fargo, the farmers' market, daily prices by grade of dark northern, mixed, white, red, amber, durum, and winter wheat were used. Source: *Grain Bulletin*, Minneapolis.

What were the effects of this redistribution on the coöperating farmer and the consumer considered, respectively, in these capacities, and on the current economic situation? The farmer clearly gained; for he suffered no loss in the price at which he sold his crop but instead received a slight increase, and the program required of him a moderate reduction only,[28] in exchange for which he was paid liberally and had the comforting assurance of stability with respect to part of his income. The consumer clearly lost; for he paid a higher price for flour and bread of the same quality. The difficulties of the analysis center in appraising the effects of this redistribution on the general economic situation. It had, as would be expected because of the incidence of the tax, slight effect only on the price of wheat. The reduction purchased by it was moderate, and is to be given small weight. The chief problem therefore is to determine the general economic consequences involved in the transfer to wheat farmers of some $250,000,000 or $300,000,000 collected from the consumers. By "economic consequences" is meant the general level of business and employment. This inquiry is directed not to the justice or to the social desirability of the redistribution but only to its effects on trade and business activity.

It was purchasing power that was redistributed by the tax. Accordingly, the result of this operation is to be pursued first through an examination of its effects on the purchasing of consumers in general and of wheat farmers in particular.

Wheat bread is a widely consumed staple of life in this country. Both the millionaire and the day laborer eat bread. The statistics of milling indicate that they ate practically as much bread at the higher price caused by the tax as they would have eaten without the tax. The effects of this increased cost of bread on their purchases of other commodities must be as various as the economic circumstances of the individuals concerned. The rich man would buy as before; the day laborer, confronted with the embarrassing fact that a dollar can be spent only once, would be compelled to economize. The problem, however, is to find the *general* situation resulting from a multitude of individual situations. Perhaps the best approach to it is through an examination of the national income. In 1929, families with incomes of $2,000 or less saved only 250 million dollars.[29] These families were in numbers 59 per cent of the total. Families with incomes of $3,000 or less, comprising 78 per cent of the total of families, saved 1,741 millions. It is evident that even in a prosperous year, most families have a moderate income only and save but a relatively small sum. In the depression years 1933 and 1934

[28] A reduction in the acreage sown of 15 per cent from the base period was required for the 1934 crop. Davis, however, estimates that because of adverse weather much of this reduction would have been made anyway. See pp. 347 to 354.

The reduction for the 1935 crop was only 10 per cent of the base acreage, and even this small reduction was relaxed in the spring of 1935.

[29] *America's Capacity to Consume,* Brookings Institution, Washington, 1934, p. 94.

that moderate income must have become small indeed, and the modest saving, in general, almost non-existent. It is to be remarked also that poor families include more children than rich families. Furthermore, it is probable that the poor families are more commonly enlarged by the parents of the husband or wife than happens in rich families. From these various considerations, the conclusion appears warranted that most families paid the higher price of bread deriving from the processing tax only by buying less of other commodities. In the situation, no other source of purchasing power was open to them.

Wheat farmers, on the other hand, received additional income in the form of benefit payments for coöperation with the control program. Doubtless, as studies by the Agricultural Adjustment Administration show, they spent more and rural retail trade revived.[30] Undoubtedly, also, the increase in retail trade resulted in new orders to wholesalers and to manufacturers, and therefore in increased employment and puchasing power. But—and this is the crucial question—was the ratio of the increased expenditures of farmers to the contracted expenditures of the remainder of the population such as to make a *net* contribution to the total volume of trade? The mere redistribution could not of itself have operated to yield a net addition to trade, for dollars in the possession of the farmer are no more potent in stimulating business than dollars in the possession of the consumer. It is the ratio that is in point for assessing the direct effect of the redistribution on trade.

This investigation is hampered at the outset by the limitation that only the most general statistics are available on the amount and the direction of expenditures from benefit payments, and no statistics are available on the shrinkage in the purchases of consumers caused by the tax, and the commodities affected. It is known that the expenditures of farmers for retail goods increased as their total incomes mounted. It is known also that the sales of certain commodities increased. But neither the contribution to these new purchases made by benefit payments nor the total expenditure financed by them is known. Any conclusion therefore respecting the net direct effect of this redistribution of income on trade must rest on inference.

Consumers, as has been indicated, probably abstained from buying other commodities by very nearly the total increase in cost caused by the tax.[31] Some of this economy was doubtless made in food, particularly in higher priced foods, but in view of the part which taste and habit play in the consumption of food, it appears reasonable to believe that most of it was in the purchase of other commodities.

Farmers probably bought food as before and increased their purchases of

[30] See press release of Agricultural Adjustment Administration, December 20, 1935, headed "Revised Rural Buying Contributes 40 Per Cent of Business Recovery." The data given apply to farmers in general, without emphasis on any one group.

[31] Doubtless some of this economy was achieved by the purchase of cheaper goods.

other commodities. It is, however, improbable that they spent the whole of the benefit payments in trade channels. Farmers are accustomed to saving. There is considerable evidence that they save much more than city persons on the same income.[32] Besides, in the depression years 1933 to 1935, the recurrent obligations of taxes and interest imposed a heavy burden on their incomes. To some farmers, threatened with foreclosure, benefit payments offered the opportunity of keeping their farms a little longer; to others, these payments were the means of relieving the more pressing of their obligations; and to many, not so close to the edge of disaster, they widened the margin of security. Aware of hardship and schooled in its ways, farmers would not be likely in a period of special adversity to spend all that came their way.

The conclusion from this comparison is that wheat farmers did not spend so much of the income from the processing tax on wheat as consumers paid. If this judgment be valid, it follows that the net direct effect of the redistribution of income brought about by the processing tax was less trade, not more. Even so, the question still remains: could the redistribution have contributed to recovery? For despite the negative result of this shifting of dollars on the volume of retail trade, it may have had other economic consequences that bore upon recovery.

Chief of these possible effects is that upon the credit situation. The fall in the prices of wheat and other farm products had been so grievous as to undermine the security of loans based on agricultural assets. The rural banks, already weakened by the increase in their numbers, which had appeared before the depression, were in a bad way. Insurance and loan companies operating in farm real estate were threatened with heavy losses. Units of government that depended for revenue on sources which in turn relied on agricultural income not only were unable to collect all the money needed to meet current demands but found also that their credit had become impaired.

In such a situation, the support given the credit structure by the distribution of some 250 million dollars, most of which was paid out in regions stricken first by depression and then by drought, may well have been considerable; and when translated into lessened pressure for liquidation of loans, and easier credit, the resulting effect on purchasing, and thereby on recovery, may have been significant.[33] Most buying in our economic order is founded on credit. Dollars may be had by those who want them but checks mostly serve our need for a medium of exchange. And beneath both the dollars that go into billfolds and the checks that are redeposited is the basic fact of credit. Loans, as the foundation of bank deposits, are indeed the ultimate medium in which we trade whatever passes in exchange. The

[32] *America's Capacity to Consume,* pp. 77-78; 260-261.

[33] Benefit payments to wheat farmers in Montana, Wyoming, Colorado, North Dakota, South Dakota, Minnesota, Nebraska, Kansas, Oklahoma, and Texas aggregated $175,350,000.

assets, which support the credit structure, function, therefore, at a point of leverage. Their growth makes for an easier credit policy and expansion of economic activity; their shrinkage entails a contraction of loans and a decline in business.

But may not all this be admitted, and yet the wholesome effect of the benefit payments on the credit structure of the wheat region be cancelled by the deflationary effect of the payment of the processing tax on wheat? Indeed, is not this result inevitable, for if it be said that the distribution of the benefit payments strengthened the credit structure in agricultural areas, must not the payment of the correlative processing tax have weakened that structure in urban areas. Such a conclusion, however, follows only on the assumption that the strength of the banks was relatively the same in both urban and rural areas. For in that situation the subtraction of assets ought to affect credit policy in at least as great a degree as the addition. The urban banks, however, owing to a number of reasons among which may be included the concentration of public works expenditures in cities, were in a stronger financial position than the rural banks. This is particularly true when the comparison is made, as it should be, between the banking situation in the western wheat region, and that in the densely populated northeastern states where most of the consumers live who bore the processing tax on wheat. Thus the loss in the value of the assets supporting the loans of city banks was not so great relatively as the gain in the value of the assets behind the loans of country banks. It is, therefore, to be expected that the effect of this redistribution of security on the credit policy of country and city banks would be different. City banks, being relatively stronger than country banks and only slightly weakened by the payment of the processing tax, probably changed their credit policy slightly if at all. Country banks, on finding that the value of their assets had mounted considerably, probably relaxed somewhat the excessively tight credit policy that had been forced upon them by the depression.

This analysis, pointing to a redistribution of credit resources between country and city banks and a resulting easing in loan policy as the chief economic effect of the redistribution of income involved in the payment of the processing tax on wheat, and the correlative receipt of benefit checks, is ventured as a reasonable possibility. Acceptance of it entails also the belief that this money-changing probably contributed toward recovery. For a betterment in the quality of banking assets, by lessening the pressure on borrowers, operates both to check liquidation and to lay the foundation for that extension of additional credit so necessary to an improvement in the economic situation.

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A REVIEW OF MONOPOLISTIC AND IMPERFECT COMPETITION THEORIES

The past decade has witnessed the development of a technique of equilibrium value analysis which, although built upon the foundation of the neo-classical tradition, denies the validity of its emphasis on the competitive character of the price system. Monopolistic conditions are to be regarded as ubiquitous and determining, rather than exceptional and inconsequential, features of modern economic life. The re-orientation consists in according analytical recognition to the joint influence of monopolistic and competitive elements in the determination of normal equilibrium values. Although only the basic framework of the theory has been laid, the importance and permanence of its influence on economic thought are now beyond question.

I

Until about ten years ago the general validity of the analytical technique of the neo-classical theory of competitive equilibrium value was widely if not unanimously acknowledged by analytical and deductive economists. Dissatisfaction was frequently expressed respecting the consistency of the theory with conditions of the real world; but published controversy dwelt largely upon efforts to preserve and improve it as an explanation of practical value problems, while according full recognition to the fact that the theory is acceptable only as a first approximation. Within the past decade this approach has been challenged by a school of thought which contends that the neo-classical analysis must be re-oriented and developed in order to provide an apparatus adapted to the study of a world of price policies, sales promotion, and special conveniences to buyers, a world, furthermore, of Bromo-Seltzer, Alka-Seltzer and Sal Hepatica. This paper proposes to survey some of the more important literature of this controversy dealing with the major issues raised by the dissenting economists.

Criticism of the neo-classical value analysis is based primarily on denial of the inductive validity of its emphasis on the competitive character of the price system, and centers upon the analytical propriety of its method of excluding certain market conditions as being of no significance in the determination of normal equilibrium prices.[1] This position was first taken formally in an article by Professor Piero Sraffa entitled, "The Laws of Returns under Competitive Conditions" (*Econ. Jour.*, Dec., 1926). Additional arguments were subsequently presented in Professor Harold Hotelling's paper, "Stability in Competition" (*Econ. Jour.*, Dec., 1929). Following rather closely the ideas offered by Professor Sraffa, there next appeared in 1933 two books which are now the standard works expounding versions of a re-oriented equilibrium value analysis: *The Theory of Monopolistic Competi-*

[1] Neo-classical economists of the first rank, such as Allyn Young, Knight, J. M. Clark, Pigou, Marshall, Wicksteed, and Edgeworth, were well aware of the limitations of this methodology; many of the recent theoretical developments are foreshadowed in various parts of their writings.

tion,[2] by Professor Edward H. Chamberlin, and *The Economics of Imperfect Competition,*[3] by Mrs. Joan Robinson.[4]

II

(a) The efforts of neo-classical economists to construct a supply curve, indicating the long-period competitive adjustment of cost and output in an industry, were never rewarded with the approval, tacit or verbal, that other phases of the theory seemed to receive. Professor Sraffa added fire to the controversy over the normal supply schedule by introducing a new line of attack.[5] The concept, he contends, is untenable for one or the other of the following reasons: (1) the neo-classical assumption that the productive organization consists of industries within which numerous firms compete for the markets for perfectly homogeneous products, and all of which are competitively united into a great system by the principle of substitution, is erroneous because no such industries selling homogeneous products are to be found in the real world; (2) even if this assumption is granted, the idea of a normal supply curve is vitiated because of the logical incompatibility of decreasing costs with *industrial* equilibrium under competitive conditions.

If a firm, independently of its competitors, can expand output at decreasing costs (by virtue of "internal economies"), control of the industry must inevitably pass to that firm, and equilibrium cannot be reached until

[2] Cambridge, Harvard Univ. Press. Professor Chamberlin's book is a revision of a doctoral dissertation begun by him in 1925, submitted to Harvard University on April 1, 1927. Many of the opinions presented by Professor Sraffa were apparently held independently by Professor Chamberlin contemporaneously. Originality for them should, therefore, be attributed to both writers. Chapter 3 of Professor Chamberlin's book, entitled "Duopoly and Oligopoly," was published in the *Quart. Jour. Econ.*, Nov., 1929.

[3] London, Macmillan.

[4] The major features of their analyses are succinctly presented by Mr. R. F. Harrod in "Doctrines of Imperfect Competition" (*Quart. Jour. Econ.*, May, 1934) from which some implications are deduced regarding wage and trade cycle theory. Critical discussions of various phases of the dissenting theory are to be found in: Round Table on Imperfect Competition (*Am. Econ. Rev.*, March, 1934, Suppl.); Joan Robinson, "Imperfect Competition and Falling Supply Price" (*Econ. Jour.*, Dec., 1932); Joan Robinson, "What Is Perfect Competition?" (*Quart. Jour. Econ.*, Nov., 1934); R. F. Kahn, "Imperfect Competition, A Further Note" (*Econ. Jour.*, Dec., 1932); G. F. Shove, "The Imperfection of the Market" (*Econ. Jour.*, March, 1933); A. J. Nichol, "The Influence of Marginal Buyers on Monopolistic Competition" (*Quart. Jour. Econ.*, Nov., 1934).

A considerable literature has also appeared in recent years concerning the competitive long-period supply curve, bearing directly upon the validity of the theory of competitive equilibrium value. The more important of these include Professor Sraffa's article, mentioned above; A. C. Pigou, "The Laws of Diminishing and Increasing Cost" (*Econ. Jour.*, June, 1927); L. C. Robbins, "The Representative Firm" (*Econ. Jour.*, Sept., 1928); A. A. Young, "Increasing Returns and Economic Progress" (*Econ. Jour.*, Dec., 1928); D. H. Robertson, P. Sraffa, G. F. Shove, "A Symposium on Increasing Returns and the Representative Firm" (*Econ. Jour.*, March, 1930); R. F. Harrod, "The Law of Decreasing Cost" (*Econ. Jour.*, Dec., 1931); N. Kaldor, "The Equilibrium of the Firm" (*Econ. Jour.* March, 1934).

[5] "The Laws of Returns under Competitive Conditions," *Econ. Jour.*, Dec., 1926.

competition in the industry is destroyed. Furthermore, reductions of cost attributable to "those external economies which result from the general progress of the industrial environments"[6] are inconsistent with the neo-classical industrial partial equilibrium analysis, since they destroy all particular equilibria by their effects on the costs and demands of related industries. Consequently, only those economies which are internal to the industry and, at the same time, external to the constituent firms, are compatible with the partial equilibrium normal supply curve, and such economies are of "precisely the class which is most seldom to be met with."[7] On this ground, analytical economists are advised "to abandon the path of free competition" and to reconstruct the theory of value on the basis of the individual firm as monopolist of its particular market.

In 1930 a "Symposium on Increasing Returns and the Representative Firm"[8] discussed the issues raised by Professor Sraffa chiefly in the light of previous contributions by Professors A. C. Pigou,[9] L. C. Robbins,[10] and A. A. Young,[11] which were more or less direct rejoinders to his position. Two major propositions seem to have been established concerning the supply curve:[12] (1) If competition is perfect, so that there are no frictions to prevent firms from attaining optimum size, falling average costs are consistent with competitive equilibrium only to the extent that they result from economies which are shared proportionately by all firms in the industry; (2) if competition is imperfect, firms can be in equilibrium below optimum size, so that expansion of output is checked by other than purely efficiency-cost considerations. Here the issue of the competitive normal supply curve rests.[13]

[6] Marshall, *Principles* (8th ed.), p. 441. For Marshall's recognition of this problem and his position, *cf. ibid.*, p. 459 (footnote).

[7] *Op. cit., Econ. Jour.*, Dec., 1926, p. 540.

[8] *Econ. Jour.*, March, 1930.

[9] *Op. cit., Econ. Jour.*, June, 1927.

[10] *Op. cit., Econ. Jour.*, Sept., 1928.

[11] *Op. cit., Econ. Jour.*, Dec., 1928.

[12] Professor Pigou assents to these propositions. *Cf.* "A Note on Imperfect Competition," *Econ. Jour.*, Dec., 1932.

[13] Mr. Kaldor, in an illuminating article, "The Equilibrium of the Firm" (*Econ. Jour.*, March, 1934), reasons that under the assumption of "perfect" competition no determinate long-period optimum *size* of a productive unit can be deduced if only the production function and supply prices of the factors are given. From these data only the optimum proportions, not the optimum amount of the factors, which will be combined in a given production unit can be figured. This quantity is determinate only if the supply of at least one factor entering into the production function is fixed. However, for this condition to be compatible with the assumption of "perfect" competition, it is necessary that the factor be in fixed supply from the viewpoint of individual firms, but in perfectly elastic supply to the industry as a whole; "the fixity of supply must arise, not from a natural limitation of the amount available, but from a specular peculiarity of the firm's production function; that is to say, there must be *a* factor of which the firm cannot have two units, just because only *one* unit can do the job" (p. 67).

Entrepreneurship, or "coördinating ability," alone of all the factors could conceivably meet this requirement. But the ability to coördinate has no place in long-period static

(b) In the literature of neo-classical value theory the terms "competition" and "monopoly" refer to antithetical and mutually exclusive types of equilibrium price determination. The limiting conditions of each concept are not verbally agreed upon by the various writers; but implicitly, at least, the neo-classical theory rests on purified assumptions, since imperfections are held to cause no logical alteration of the final equilibrium adjustments. Owing to the insistence of dissenting economists that the imperfections must be included among the data of equilibrium value theory, agreement on precise limiting definitions is necessary in order to distinguish the elements of competition and monopoly from other market conditions.

Professor Chamberlin and Mrs. Robinson agree that the criterion of the competitive status of a firm is the elasticity of the demand schedule for its particular product and, further, that there is no useful concept absolutely antithetical to that of perfect competition. Every commodity is in some measure subject to the competition of more or less acceptable substitutes, however effectively its supply may be engrossed. Monopoly, therefore, can have meaning only with reference to a specific commodity, the elasticity of the demand for which is conditioned in part by the effectiveness of substitutes, in the same way that total demand for the output of an industry is not infinitely elastic under the traditional competitive assumption.[14] The neo-classical competitive equilibrium theory is valid, however, only if the demand function of each constituent firm in an industry is perfectly elastic. The minimum conditions of this result are two: (1) the number of firms selling a given product must be sufficiently great that the effect on price of the output of each one is negligible; (2) the output of the several sellers must be perfectly homogeneous within itself (or in the understanding of buyers), so that buyers have absolutely no reason to prefer the product of any seller except for differences in price.[15]

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equilibrium, in which problems of adjustment are non-existent; the demand for this factor is wholly dependent upon "the frequency and the magnitude of the adjustments to be undertaken." In full long-period equilibrium "the task of management is reduced to pure 'supervision,' 'coördinating ability' becomes a free good, and the technically optimum size of the individual firm becomes infinite (or indeterminate)" (pp. 70-71). In consequence there will be a continuous tendency for the individual firm to grow and in time to destroy "perfect competition." Mr. Kaldor's conception of "perfect" competition corresponds to that of Mrs. Robinson, and to Professor Chamberlin's definition of "pure" competition. *Infra*, sec. ii(b).

[14] *Theory of Monop. Comp.*, p. 65; *Econ. of Imper. Comp.*, pp. 4-5; R. F. Harrod, "Doct. of Imper. Comp.", *op. cit.*, *Quart. Jour. Econ.*, May, 1934, p. 445.

[15] *Theory of Monop. Comp.*, pp. 6-8. *Econ. of Imper. Comp.*, p. 18. Similarly perfect competition among buyers postulates that the supply curve of the commodity is perfectly elastic for each buyer. Buyers must be of such number that differences in the amount of commodity taken exert a negligible effect on price, and sellers must deal with all buyers on equal terms. *Cf. Econ. of Imper. Comp.*, chap. 17, sec. ii. The attention of the dissenting writers has been devoted mainly to the market status of sellers. Analysis of imperfect competition among buyers has been attempted by a few writers largely with reference to productive factors (*cf. infra*, sec. iii). Mrs. Robinson has considered the problem for buyers of consumer goods in *Econ. of Imper. Comp.*, chap. 18.

Mrs. Robinson designates this set of conditions as "perfect" competition. Professor Chamberlin assigns the term "pure" competition to the same conditions, and reserves the phrase "perfect competition" to signify the conditions of "pure competition" in a mechanically frictionless system. The latter distinction of terms does not seem to have impressed recent writers on the subject, although the difference in meaning between (Mrs. Robinson's) "perfect competition" and (mechanically) "perfect market" is, of course, recognized by them.

The dissenting writers maintain that actual market conditions usually enable sellers in some degree to control the disposal of their resources in the manner traditionally associated with monopoly. Denial of the popular idea that sellers' competition depends solely on price seems to be the crux of the contention. Professor Sraffa, in his keynote article, argued that market conditions which lead buyers to patronize certain sellers of similar products in preference to other sellers are the chief forces obstructing the free play of competition. Consequently he brands as erroneous the conclusions (1) that competing sellers cannot individually affect the market prices of their products, and (2) that each competing producer necessarily "produces normally in circumstances of individual increasing costs."[16]

Professor Hotelling championed this opinion, contending that the neo-classical emphasis on competition fails to take sufficient account "of the existence, with reference to each seller, of groups of buyers who will deal with him instead of his competitors in spite of a difference in price."[17] The value theories of Professor Chamberlin and Mrs. Robinson both postulate these conditions, the former designating them by the phrase "monopolistic competition," the latter by the phrase "imperfect competition." From the analytical viewpoint, the direct effect of these conditions is to make the elasticity of the demand curve for each firm less than infinity. To the extent that actual market conditions are out of harmony with the assumptions of pure competition, the normal equilibrium which the neo-classical competitive theory asserts that short-run prices tend to approximate is incorrect.[18] Perfect competition, pure competition and monopoly are to be regarded merely as special cases of the general principle that each seller (and buyer)

[16] *Op. cit., Econ. Jour.,* Dec., 1926, pp. 542-544. The second point is succinctly discussed by Mrs. Robinson in "Imperfect Competition and Falling Supply Price," *op. cit., Econ. Jour.,* Dec., 1932.

[17] *Op. cit., Econ. Jour.,* Dec., 1929.

[18] Granting the validity of this contention, it may still be objected that the price system may be conceived of as an aggregation of monopolistic enterprises to which the traditional theory of monopoly may satisfactorily be applied. A rejoinder is offered by Professor Chamberlin. "The theory of monopoly, although an opening wedge, is very soon discovered to be inadequate. The reason is that it deals with the isolated monopolist, the demand curve for whose product is given. Although such a theory may be useful in cases where substitutes are fairly remote, in general the competitive interrelationships of groups of sellers preclude taking the demand schedule for any one of them as given." *Theory of Monop. Comp.,* p. 69. *Cf.* also, P. Sraffa, *op. cit., Econ. Jour.,* Dec., 1926, pp. 545-546.

seeks to maximize his own gains by equating marginal income with marginal outlay. Furthermore, pure competition or monopoly are the least relevant of all to the market conditions which determine values.

The conflict of terminology in which Professor Chamberlin and Mrs. Robinson are involved has acquired the stature of an issue in the recent literature. That this should be is disappointing in view of the essential harmony of their ideas. Both writers, in distinguishing the attributes of competition and the conditions typical of the real world, recognize that the presence of market imperfection is not in itself of crucial significance. The decisive circumstance is that individual sellers (and buyers) find themselves variously situated in respect to their influence on price. This demarcation is defined by both writers on identical analytical ground.

Mrs. Robinson objects that Professor Chamberlin's terminology is misleading in that it "pays verbal tribute to the old confusion" of identifying with the concept of *perfect* competition the notion of free entry into, and normal profits in, an industry in long-period equilibrium. Costs of entry, she asserts, are consistent in the long-period analysis with her definition of "perfect" competition, and are not, therefore, peculiar to "imperfect" competition. The essential point is simply that "no one firm can raise its price without sacrificing the whole of its sales."[19] But is it not an attractive feature of the distinction between "pure" and "perfect" competition that the traditional association of mechanical perfections with the latter is not upset, while a wholly new term is applied to the conditions which Mrs. Robinson postulates? In Professor Chamberlin's terminology "perfect" competition explicitly includes, *inter alia,* the idea of free entry. If, on the other hand, costs of entry are compatible in the long-period analysis with Mrs. Robinson's definition of "perfect" competition, they are equally consistent with the concept of "pure" competition.[20]

[19] "What Is Perfect Competition?" *op. cit., Quart. Jour. Econ.,* Nov., 1934, p. 105. She argues, further, that it seems to be better procedure "boldly to define *perfect* competition in the terms which he (Professor Chamberlin) confines to *pure* competition and so to force the particular theorist to state specifically what further conditions he finds it useful to assume for the purposes of each problem." *Ibid.,* pp. 105-106. Needless to say, the discipline for which Mrs. Robinson ably contends is no less possible under Professor Chamberlin's definitions, and equally essential.

On the adjoining page it is pointed out that the phrase *perfect* competition "is made to cover so many separable ideas, and is used in so many distinct senses, that it has become almost valueless as a means of communication." *Ibid.,* p. 104.

[20] Mrs. Robinson's strictures on the subject of normal profits are cogent but, contrary to her argument, they seem to support rather than oppose the distinction between *pure* and *perfect* competition. Her position on the question of normal profits is that the theory must recognize that the rate of return necessary to attract new entrepeneurs into a trade is invariably higher than the level below which some established firms will drop out; the double level will prevail as long as there are costs of movement from one industry to another. *Econ. of Imper. Comp.,* p. 92; "What Is Perfect Competition?" *op. cit., Quart. Jour. Econ.,* Nov., 1934. Since this double level of profits is applicable to the long-run equilibrium analysis it is palpably a variety of rent attributable to factor indivisibility,

The controlling factor in the adoption into general usage of one set of definitions in preference to the other evidently should be its contribution to clarity of thought. Professor Chamberlin's terminology seems decidedly superior in this light. *Monopolistic competition* accurately describes the emphasis of the re-orientation of neo-classical analysis upon the individual firm, administering its resources in ways traditionally associated as much with monopoly as with competition. *Pure competition* demarcates this field of study without obscuring its nexus with problems in which monopolistic elements are absent, and *perfect competition* becomes a reservoir of special assumptions to be drawn upon as needed in the study of particular problems. *Imperfect competition,* on the contrary, flanked by *perfect competition* and *monopoly,* obscures this important emphasis and poses an extremely misleading triad. Monopoly seems to stand apart as a final category after the fashion of the rejected neo-classical dichotomy, imperfect competition constituting a kind of middle zone in which the main problems lie, and perfect competition still another category.[21] Not only does this terminology disguise the essential features of the theoretical re-orientation, it actually contradicts the premise that competition and monopoly are mutually compatible rather than mutually exclusive.

III

The meeting ground of the principal versions of the dissenting thought is the proposition that the emphasis of equilibrium value theory should be shifted to the monopolistic position of the individual seller. Neo-classical monopoly theory, however, is an inadequate technique for the problems. Professor Chamberlin, for one, insists upon analytical recognition of two sets of relations that the neo-classical theory of monopoly neglects: (1) the interdependence of the cost and demand schedules of each concern owing primarily to the entrepreneur's efforts to influence the demand for his product;[22] (2) the group relation among the demands and costs of the several firms selling closely competing substitutes.

wholly inconsistent with *perfect* (frictionless) competition but compatible with *pure* competition so long as no individual firm in the industry is enabled to exert a determining influence on the price of its product.

[21] In chapter 3 of *Econ. of Imper. Comp.,* entitled "Monopoly Equilibrium" Mrs. Robinson asserts that "perfect competition is never likely to prevail in the production of any actual commodity, but it provides a limiting case of imperfect competition which is of considerable service in analysis" (p. 51). Mr. G. F. Shove, in a review of Mrs. Robinson's book, remarks with ample basis that her discussion of imperfect competition is much less satisfactory than her treatment of *pure monopoly. Econ. Jour.,* Dec., 1933. The book, in fact, throws little light on the determination of price under "imperfect" competition except indirectly in the analysis of monopoly, to which the study is primarily devoted.

[22] Mrs. Robinson perceives the direct causal relation between marketing costs and the demand schedule of the firm, but excludes it from her theory. *Cf. Econ. of Imper. Comp.,* p. 21 and p. 90, footnote. Whereas Professor Chamberlin deals analytically with the problem of marketing outlays (*Theory of Monop. Comp.,* chaps. 6 and 7), she proceeds on the

Monopolistic competition exists whenever individual sellers are able to exercise monopolistic powers in some degree because purchasers prefer their particular products to those of other sellers for reasons additional to the price consideration. Buyers are induced to prefer the product of a particular seller because, in Professor Chamberlin's terminology, the product has been "differentiated." The basis of differentiation may reside within the commodity itself, so that certain features of the commodity serve to convince purchasers that the singular properties are preferable to those of any substitute. Or, the basis may be the circumstances surrounding its sale, *i.e.*, circumstances which induce purchasers to patronize one seller in preference to another. When either of these conditions obtains, the sales of one vendor are conditioned by three factors which would be entirely irrelevant under pure competition: (1) his price policy, (2) the character of his product, and (3) his selling outlays. Thus monopolistic competition depends on quality and marketing ability, as well as price. Sellers may undertake further differentiation of their products if they find that no additional advantage is to be gained by manipulating the price. Full long-period equilibrium requires not only that every producer and seller must be under no inducement to alter his price and output, but also that every possibility of product differentiation and market promotion at his command must be exhausted.[23]

The dissenting school has adopted the marginal method in place of the concept of "net monopoly revenue."[24] For convenience of exposition the two relationships previously mentioned are ignored for the moment, so

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unenlightening assumption "that expenditure on advertisement necessary to increase the sales of a firm can be treated, from the point of view of the entrepeneur, as equivalent to a reduction in price having the same effect upon sales" (*op. cit.*, p. 21). Professor Sraffa has contended that the latter method "must be rejected, since it entirely conceals the effects which the circumstances from which the marketing expenses originate exercise in disturbing the unity of the market" (*op. cit.*, *Econ. Jour.*, Dec., 1926, p. 544). Discussions of this question are also presented in R. F. Harrod, "Decreasing Costs, An Addendum," *Econ. Jour.*, Sept., 1932, pp. 490-492; R. F. Kahn, "Decreasing Costs," *Econ. Jour.*, Dec., 1932, pp. 659-660; G. H. Shove, "The Imperfection of the Market," *Econ. Jour.*, March, 1933, pp. 114-119.

[23] *Theory of Monop. Comp.*, pp. 56-74. Product variation and market promotion are not examined as partial equilibria in *The Economics of Imperfect Competition*, which is devoted exclusively to problems of price policy. "Rival producers compete against each other in quality, in facilities, and in advertisement, as well as in price; and the very intensity of competition, by forcing them to attract customers in every possible way, itself breaks up the market and ensures that not all the customers, who are attracted in varying degrees to a particular firm by the advantages which it offers them, will immediately forsake it for a rival who offers similar goods at an infinitesimally smaller price." *Econ. of Imper. Comp.*, p. 90. Professor Chamberlin's study differs also in that the effects of the numbers of competitors on their respective monopolistic powers are examined. Set apart, this is the familiar problem of duopoly (two sellers), the analysis of which he has augmented with the study of oligopoly (sellers more than two, but less than the number sufficient to meet the conditions of pure competition), and of the effects of entrepeneur uncertainty on the solution. Mrs. Robinson, on the other hand, elaborates the cases of discriminating monopoly and buyer's monopoly (monopsony), neither of which is examined by Professor Chamberlin.

[24] *Cf.* Marshall, V, xiv.

that, in effect, it is also assumed that the demand and cost functions for the firm in question are given. In addition to the curves of average revenue and average and marginal cost for the individual firm, which for two generations have been highly fruitful implements of analysis, a fourth curve, of marginal revenue, is extensively employed.[25] This curve, which is the counterpart of the marginal cost curve and may be calculated from the average revenue function, describes the incremental revenue from the sale of successive units of the firm's output. The relation between marginal revenue and marginal cost is the crux of all equilibrium adjustments regardless of the competitive status of the firm in question or the time period under examination. An entrepreneur can maximize net returns (or minimize net losses) only by producing those units which reasonably can be expected to yield increments in revenue that cover marginal costs of production.[26]

When competition is pure, average and marginal revenue for the individual firm are identical: in the short period particular firms are in equilibrium so long as marginal revenue equals marginal cost, irrespective of average cost; in the long period, however, the only output that is compatible with maximum entrepreneur gains for all firms in the industry is that which equates average and marginal revenue with average and marginal cost.[27] This results in optimum utilization of the available economic resources from the collective viewpoint. But it is only when competition is pure that this symmetry can prevail.[28]

[25] The marginal revenue curve is of comparatively recent origin. Mrs. Robinson points out (*Econ. of Imper. Comp.*, pp. 6-7) that several students independently seem to have discovered it, among them T. O. Yntema in America, C.H.P. Gifford, P. A. Sloan, and R. F. Harrod in England, and Dr. E. Schneider, Dr. H. V. Stackelberg and Professor Mehta on the Continent. The earliest use of the apparatus in a published article apparently was by Professor Yntema, "The Influence of Dumping on Monopoly Price," *Jour. Pol. Econ.*, Dec., 1928.

[26] Marginal prime costs in the short period; marginal total costs, including the minimum necessary entrepreneur return, in the long period.

[27] Costs are assumed to include payments which are necessary in order to retain factors in their actual employment and at a given efficiency. Thus, rentive returns to intramarginal firms are calculated as costs and as such are included in their curves of average costs. *Theory of Monop. Comp.*, p. 22. Only in this way (avoiding any version of the "representative firm") can the concept of an "equilibrium of the industry" be given meaning in terms of the simultaneous equilibrium of constituent firms. *Cf.* N. Kaldor, "The Equilibrium of the Firm," *op. cit., Econ. Jour.*, March, 1934, p. 63 and p. 64, note 4. His scepticism of the validity of a long-period average cost curve presuming to determine the optimum *size* of the production unit under assumptions of pure competition has been cited (*supra*, note 13). It is obvious that the size of the firm is limited in conditions of monopolistic competition; Mr. Kaldor's conclusion that the element of indeterminateness which remains does not affect the downward sloping section of the curve of long-period average total costs is consoling, for it is this section that is of supreme importance in the monopolistic competition analysis. *Ibid.*, pp. 73-74.

[28] A firm will be in short-period and long-period equilibrium as long as entrepreneur gains are maximized. At the same time the industry may be in long-period disequilibrium if the profits earned by its consistent firms indicate to potential entrepreneurs that entry into the industry may be profitable and furthermore, if entry is actually possible. *Cf. Econ. of Imper. Comp.*, ch. 7; *Theory of Monop. Comp.*, ch. 2.

The position consistent with maximum profits for a monopolistic firm, no differently than that of a concern in a purely competitive industry, is determined by the equality of marginal revenue and marginal cost, whether in the short period or long period. The elasticity of the function of average revenue, however, is less than infinity; marginal revenue must, therefore, decline at a more rapid rate than average revenue as output is enlarged. The long-period equilibrium relation of average revenue to average costs depends upon the factors conditioning the average demand function and cost function of the firm (which are impounded for the moment). Given these conditions, long-period equilibrium for the firm is consistent with any rate of output at which (1) average revenue either equals or exceeds average cost (including a minimum necessary entrepreneur return) and (2) marginal revenue is equal to marginal cost. In the traditional theory the minimum level is simply the special case of a monopolist able just to break even; in the theory of monopolistic competition, on the contrary, this equilibrium position has general application. The position is described by the point of tangency of the negatively sloping demand schedule with the curve of average costs. The result is a higher price and smaller output, assuming the same cost function, than would be the case under pure competition; the size of the firm will be smaller than the optimum of pure competition and the firm will be producing normally under conditions of individual decreasing costs.[29]

This analysis, in effect, carries the solution to the stage at which the traditional theory of monopoly expires (except for the question of the relation of costs to the scale of output). Recognition of the two sets of relations which were previously excluded may now be undertaken. The pattern of the new arrangement will be similar, but a different equilibrium results, conditioned by the changes, induced by the new forces, in (1) the position and elasticity of the demand function, and (2) the cost function of each firm. Consideration of the resulting long-period equilibrium may conveniently be undertaken in the light of Professor Chamberlain's main conclusions, in which the standard of comparison is the corresponding equilibrium in pure competition. Two conditions underlying these conclusions should first be observed. (1) It is assumed that in most cases the minimum average costs of monopolistically competitive firms will be no lower than under pure competition; in other words, production economies open to firms under monopolistic competition are no less available under the latter.[30]

[29] *Theory of Monop. Comp.*, ch. 5, § 2; *Econ. of Imper. Comp.*, ch. 3 ("Monopoly Equilibrium"). But, *cp. ibid.*, p. 153.

[30] *Theory of Monop. Comp.*, pp. 85-87; *Econ. of Imper. Comp.*, ch. 14. Mrs. Robinson declares that, "When the market is imperfect the process of disintegration of firms (which may lead to economies of large scale even under perfect competition) is very much retarded, and a degree of specialization that would be profitable under perfect competition is not profitable when competition is imperfect. There is here, therefore, a reservoir of potential economies of large-scale industry; an increase in the total demand for the com-

(2) Marketing expenditures, which are irrelevant in pure competition, constitute a net addition to production costs under monopolistic competition, and thus tend in some measure to offset economies of larger scale operations which they make possible by extending the market of the concern.[31]

Professor Chamberlin enunciates four central conclusions of his analysis:

(1) Normal price is inevitably higher than it would be under pure competition. Expenditures for marketing and product differentiation, where they exist, cause the price to be still higher. The tendency toward a higher equilibrium price may be either intensified or mitigated, depending upon whether these expenditures, on the part of both the firm in question and its competitors, cause its demand to be less or more elastic.[32]

(2) The scale of production *may* be either larger or smaller than the optimum scale which would be attained under pure competition. If no selling costs are involved, the scale will ordinarily be smaller owing to the slope of the average revenue curve.[33] If selling costs are included, the scale *may* be larger, but it is more likely to be smaller.[34]

(3) Entrepreneur gains higher than those which would prevail under pure competition are not a necessary consequence of market imperfection. Supra-competitive profits may be absorbed in outlays designed to resist the encroachments of competitors in the market for a particular product.[35]

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modity, leading to changes in the individual demand curves, may have the effect of releasing these potential economies by making a degree of specialization profitable which was not profitable before. In short, an increase in the total demand for the commodity, when the market is imperfect, is far more likely to lower the average cost curves of the firms than when the market is perfect." *Ibid.*, p. 129. She apparently, however, does not mean by this that they will be lower than when competition is perfect. See also, "Imperfect Competition and Falling Supply Price," *Econ. Jour.*, Dec., 1932.

[31] *Theory of Monop. Comp.*, pp. 130-140; *Econ. of Imper. Comp.*, pp. 167-168.

[32] *Theory of Monop. Comp.*, pp. 165-166; *Econ. of Imper. Comp.*, ch. 7; "Imper. Comp. and Falling Supply Price," *op. cit.*, *Econ. Jour.*, Dec., 1932. Professor A. J. Nichol declares that this conclusion is largely untenable because it postulates a perfectly continuous demand schedule. To depict properly the usual situation, he contends, the curve should show a fraction of the firm's revenues, say, one-tenth, as marginal sales at a certain price; the demand for these units, in other words, is perfectly elastic. By some happy coincidence the curve of long-period average costs is tangent to the demand curve within this range, so that the price is the same as under perfect competition. *Cf.* "The Influence of Marginal Buyers on Monopolistic Competition," *Quart. Jour. Econ.*, Nov., 1934; *op. cit.*, *Am. Econ. Rev.*, March, 1934, Suppl., pp. 30-32. A concurring opinion is expressed by Henry Smith, "Discontinuous Demand Curves and Monopolistic Competition," *Quart. Jour. Econ.*, May, 1935.

[33] *Theory of Monop. Comp.*, p. 88; *Econ. of Imper. Comp.*, p. 97.

[34] *Theory of Monop. Comp.*, p. 166. Mr. Harrod's statement of these conclusions is more categorical: "In conditions of imperfect competition, long period equilibrium is consistent with lay-outs of less than the optimum size, and their exploitation below the optimum capacity. If not more than standard profits are earned in equilibrium the lay-out *must* be too small and it *must* be worked below capacity. If on the other hand optimum conditions of production are achieved, profits *must* be above the standard level. In either case the price will be above the competitive level." "Doct. of Imper. Comp.," *op. cit.*, *Quart. Jour. Econ.*, May, 1934, p. 460.

[35] *Theory of Monop. Comp.*, p. 88.

They may also be eliminated by the entry of new firms selling effective substitutes, or by successful efforts of competitors to attract customers away from the firm, the result in either case being to reduce demand for its product. Monopoly profits evidently are compatible with long-period equilibrium only when some productive factor or factors are peculiar to the firm in question, or when, for some reason, free entry into the trade is effectively obstructed by existing concerns.[36]

(4) A persistent influx of new entrepreneurs may occur, even when profits in a trade are not exceptional, owing perhaps to the stubborn optimism or miscalculation of newcomers regarding business prospects. The effect may be to raise the level of prices in the industry instead of lowering them, because established sellers decide that a higher margin over cost, rather than a price cut, is the safer policy. The ultimate result of such a situation will be long-period equilibrium with profit margins no larger, but prices higher, than before, and an excess of productive capacity, intensifying the tendency of firms to produce below optimum capacity.[37]

For the most part this equilibrium value analysis has been developed with reference to sellers of goods of the first order, and its ramifications into other spheres of economic theory do not occupy any considerable space in the literature as yet. A modest but highly suggestive beginning has been achieved in applying the technique to problems of distribution. Several chapters in Mrs. Robinson's book[38] and some general observations by Professor Chamberlin[39] and Mr. Harrod[40] constitute the bulk of the published opinion on this question. All of these discussions inveigh heartily against the doctrine of marginal productivity as an explanation of functional distribution of the social dividend on the familiar ground that monopolistic elements prevent attainment of this competitive ideal. The analysis con-

[36] Mrs. Robinson offers no definitive conclusion regarding the comparative entrepreneur gains under "perfect" and "imperfect" competition. She contends (*cf. supra,* note 20) that a double level of profits will prevail as long as there are costs of movement from one industry to another. Any other obstacles to entry will presumably broaden the span. Such obstacles, however, may be as compatible with "perfect" competition as with "imperfect" competition, so that no general conclusion is possible unless it is shown that the obstacles in the one case are usually more formidable than in the other. *Cf. Econ. of Imper. Comp.,* p. 92; "What Is Perfect Competition?" *op. cit., Quart., Jour. Econ.,* Nov., 1934.

[37] *Theory of Monop. Comp.,* ch. 5, § 5; ch. 7, §5. Mrs. Robinson has not deduced a comparable conclusion; whatever approval she might offer would doubtless be highly qualified, depending in part upon the conditions of entry into the trade and the position of established firms with respect to potential internal economies (*supra,* note 31). Citations from her book are difficult on this question; *cf.,* however, ch. 27, § 8.

Professor Chamberlin's application of the phrases "excess capacity" and "waste" to a monopolistically competitive world and, likewise, Mrs. Robinson's adoption of the word "exploitation" into her scientific vocabulary, possess a distinctly crusading flavor. "Welfare economists" and decriers in general of unregulated private enterprise should find this agreeable.

[38] *Econ. of Imper. Comp.,* books 7, 8, 9.

[39] Round Table on Imperfect Competition, *op. cit.,* pp. 28-31.

[40] *Doctrines of Imperfect Competition,* op. cit., pp. 461-64.

sists of little more than redefinition of the four essential curves in terms of the productive factors, deducing from them conclusions similar to those of the value problem. Assuming the factor to be labor, it is shown that under monopolistic competition the entrepreneur will hire up to the point at which the marginal value product (marginal revenue) equals the cost of the marginal laborer. If the demand for the product of the firm is not perfectly elastic, the price paid for the last unit of labor will inevitably be lower than the value of the marginal product to the entrepreneur. Thus, "There is no escaping the conclusion that even a slight element of monopoly necessarily reduces the remuneration of all factors below their marginal productivity."[41]

IV

That a rigorous reëxamination of familiar theories following the neo-classical tradition has been precipitated by the dissenting writers is manifested by an expanding crop of literature in sympathy with their views. The extent to which the traditional mode of analysis will undergo revision or jettison cannot, of course, be safely estimated. All deductive explanations of economic phenomena require constant reconsideration in the light of alterations of their inductive data. So large a part of the dissenting thought, however, consists in refinement of definition and technique that defenders of orthodoxy may prudently question whether this new pressure to apply the exact methodology of the physical sciences to the data of economics will be fruitful.[42] On the other hand, it should be pointed out that by tackling rather than neglecting such matters as product differentiation and market promotion, the re-oriented theory is far more realistic. It begins its definition by assuming a real world, which is more than can be said for the older apparatus. In the sphere of ethico-economic thought, however, the prospect of widespread recognition of the new theoretical developments is certain, for in them the groping of social welfare advocates for a rationale of public interference in private capitalistic enterprise effectively to combat that of laissez faire finds glorious realization.

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[41] Round Table, *cit.*, p. 24.

[42] *Cf.* Marshall, *Principles* (8th ed.), Appendices C and D. Against this virtual counsel of despair as to progress in social science research may be laid the mathematical economists' optimistic dictum that, as the technique of scientific observation and analysis advances, apparently qualitative differences among facts resolve into quantitative differences, and mathematical methods become feasible on an increasing scale. The theory of monopolistic competition, in effect, asserts that empirical and methodological progress has been made, sufficient to justify inclusion of some of the variables excluded from the neo-classical "first approximation."

THE SILVER CLAUSE IN CHINA

Since 1933 silver clauses, defining the Chinese dollar and providing for optional repayment in bar silver or in equivalent value in legal tender currency, have appeared in debentures issued by foreign and by some Chinese borrowers in Shanghai. After China went off the silver standard in November, 1935, debenture-holders of at least two companies agreed to accept legal tender bank notes for December 31 interest. The subsequent fall in the price of silver reduced the margin between silver and notes and made the question less important. No case apparently has been taken to court as yet; the legal questions are complicated by the extraterritorial status of many of the borrowers. Whether any cases are brought to court probably will depend upon whether the margin between silver and notes becomes so large as to cause serious inequity to the debenture-holders.

The departure of China from the silver standard in November, 1935, has raised the question whether the silver clauses found in some securities issued in Shanghai are enforceable. The situation is similar to that which arose with the annulment of the gold clause in American securities. It is complicated, however, by the fact that some of the debtor corporations involved are of foreign nationalities which enjoy extraterritorial privileges and are not subject to Chinese law.

The Background of Chinese Currency

At the beginning of the present century Shanghai, the commercial and financial center of China, was on the silver standard, in spite of currency complexities in the interior. The monetary unit for financial transactions, for foreign trade, and for domestic wholesale trade was the Shanghai tael, which fundamentally was a certain weight of silver of a certain fineness.[1] It was equivalent to 518.512 grains of fine silver.[2] Bar silver imported into China was cast by private smelting-shops into ingots weighing about 50 taels, and of a distinctive shape, called "shoes" of *sycee,* a word literally meaning "fine silk" and by implication, "fine silver." Each shoe was weighed and inspected by a representative of the *kung-ku-chu* or public assay office, an institution responsible to the banks, not to the government. He marked it with its weight and fineness; and, although his methods may not have been very exact from a scientific standpoint, his determination was final. As one writer put it,

> . . . it is the common understanding that the *kung-ku's* appraisal shall be accepted, not necessarily as correct, but as authoritative.[3]

[1] For a full discussion of Chinese currency see E. Kann, *The Currencies of China,* 2nd ed., Shanghai, Kelly and Walsh, 1927. A brief account of the Shanghai tael is given by John Parke Young, "The Shanghai Tael," *American Economic Review,* vol. 21, pp. 682-684, Dec., 1931.

[2] E. Kann, "What Is a Shanghai Tael?", *Chinese Economic Journal,* vol. 1, pp. 769-772, Aug., 1927.

[3] Edward B. Drew, commissioner of customs at Ningpo, in a report of Feb. 12, 1878, quoted in Hanna, Conant, and Jenks, *Report on the Introduction of the Gold Exchange Standard into China, the Philippine Islands, Panama, and Other Silver-Using Countries,* Washington, Supt. Docs., 1904, p. 221.

The reserves of both foreign and Chinese banks consisted chiefly of these shoes. Actual transactions in taels were usually settled with bank notes or checks expressed in that currency, but these instruments were always redeemable in actual *sycee* if desired.

Although the tael was the unit for wholesale trade, most retail business in Shanghai was in terms of Mexican silver dollars, large quantities of which had come into China in the course of foreign trade. Bank notes and checks in terms of this currency were also used.

Both the tael and the dollar had a status distinctly different from that of money in most countries. In the United States and most western countries, the coinage of metallic money is strictly a government function. In China, however, neither the tael nor the Mexican dollar was regulated in any way by the government. The commercial and financial community, both foreign and Chinese, from long experience had confidence in the mark of the *kung-ku* on the *sycee* and in the stamp of the Mexican government on the dollar, and did not fear the debasement of either currency. It could not have had as much confidence in any Chinese government currency at that period, for experience had shown that the coinage of silver dollars and subsidiary silver by provincial mints, begun toward the end of the nineteenth century, did not show a close adherence to standard.

As time went on, currency conditions changed somewhat. Beginning in 1914 the new Chinese Republican government coined large quantities of national silver dollars, the quality of which was well maintained. These gradually replaced the old Mexican dollars in circulation. The new government adopted the dollar for its accounts, and to a small extent the dollar replaced the tael in other fields; but the bulk of Shanghai's foreign and wholesale trade continued to be transacted in taels. A succession of civil wars prevented further monetary reforms, and it was not until April, 1933, that the National government, far stronger in every way than those which had preceded it, finally abolished the tael and began the coinage of a new national dollar, with a silver content about 1.7 per cent less than that of the 1914 standard.

The Shanghai Investment Market

Until recent years investment securities, in the sense in which these words are used in America, were practically unknown in China, except for those issued by foreign corporations. Chinese business was conducted on a relatively small scale and by organizations more like partnerships than corporations; they made no public issues of securities. Some of the foreign loans of the Chinese government had a good rating, because they were secured upon the customs revenue; but most of its domestic issues were highly speculative, especially during the period of civil wars from 1911 to 1928.

Among the foreign and to a certain extent among the wealthier Chinese

population of Shanghai there was some demand for investment securities; and there were various foreign organizations which needed capital and were able to supply this demand. Foremost among these was the Shanghai Municipal Council, a predominantly British body, elected by the foreign ratepayers. This council, which administered the affairs of the International Settlement, had a well defined status under treaties and agreements with the Chinese government. With the steady growth of Shanghai, the taxing power of this body and the revenue which it derived from an extensive electric power plant gave ample security to its debentures, which were the most gilt-edged investment available. Of somewhat lesser quality were the debentures of various Shanghai utility, real estate and industrial corporations, mostly British, with a sprinkling of other nationalities.

All of these debentures were expressed in tael currency, the word "silver" either being used explicitly or implied in some phrase such as "Shanghai *sycee*." The tael was accepted so generally as a silver unit that no exact definition was included.

Domestic bond issues of the National government established in 1928 were of better standing than those of its predecessors. They were still somewhat speculative, however; and the addition of a strict silver clause defining the dollar would have been an inappropriate refinement.

The Beginning of the Silver Clause

The abolition of the tael in April, 1933, meant that future transactions must be expressed in a currency subject to government regulation. The slight decrease in the silver content of the 1933 dollar as compared with the 1914 dollar was negligible; and both the Chinese and the foreign community probably had greater confidence in the National government which had been in power since 1928 than in any of its predecessors. Nevertheless, governments far stronger than that of China had been having financial and monetary difficulties, the United States was beginning to go off the gold standard, and almost anything might happen in China. It thus was the part of the prudent investor to demand protection against any reduction in the silver content of the dollar.

The first suggestion for a silver clause was made by Eduard Kann, an exchange broker and the leading authority on Chinese currency, who proposed the following:

> . . . The amount of dollars . . . each containing a minimum weight of 23.493448 grammes silver 1.000 fine, repayable, together with interest at the rate of . . . per centum per annum, in silver coins of the same minimum weight and fineness current and legal tender in China; or, failing the production of which, silver in commercial bars of a kind tenderable in the world's silver markets, based on 1.000 fine, plus a coinage fee as charged by the Chinese government for coining silver dollars at the time of repayment.[4]

[4] *Finance and Commerce,* Shanghai, vol. 21, p. 435, Apr. 19, 1933.

The first corporation to adopt this suggestion was the Cathay Land Company, Ltd., a British company, incorporated in Hong Kong. The advertisement on June 12, 1933, of its issue of $1,500,000 6 per cent debentures stated:

> The debentures provide for repayment in dollars of a silver content equivalent to the present standard dollar (*i.e.,* 23.493448 grammes of silver, 1.000 fine), or, if such dollars are no longer current and/or obtainable, in commercial bars, current in the principal silver markets of the world, plus the coinage fee payable to the Chinese government for minting, or the value, in legal tender current in China at the date of repayment, of such bars and coinage fee, so that debenture-holders will receive exactly what they invest and will not be affected by any variations in the silver content of Chinese currency.[5]

It will be noted that while Mr. Kann's proposal had included only two options, silver dollars and silver bars, this added a third, the equivalent in legal tender currency.

The Silver Clause Established

Other borrowers followed suit and during the next two years most of the debentures issued by foreign corporations in Shanghai contained some form of silver clause. In most cases this clause, like that of the Cathay Land Company, Ltd., included the option to pay in silver bars, or in current legal tender money equivalent to the cost of such bars. Among those borrowing on this basis were the French Municipal Council,[6] Central Properties, Ltd.,[7] a British corporation, the Shanghai Power Company,[8] a subsidiary of the American and Foreign Power Company, the Shanghai Telephone Company,[9] a subsidiary of the International Telephone and Telegraph Company, and the Realty Investment Company, Federal Inc., U.S.A.[10]

One Chinese borrower, the City of Greater Shanghai, which controls the old Chinese city and the rapidly developing districts outside of the International Settlement and the French Concession, included a silver clause in its debentures.[11]

There was also a tendency for landlords to include a silver clause in leases.[12] It is possible that the same thing was done in other contracts, but there seems to be little published information on the subject.[13]

[5] *Ibid.*, vol. 21, p. 682, June 14, 1933.
[6] *Ibid.*, vol. 23, p. 139, Jan. 31, 1934.
[7] *Ibid.*, vol. 23, pp. 252-253, Feb. 28, 1934.
[8] *Ibid.*, vol. 23, pp. 286-287, Mar. 7, 1934.
[9] *Ibid.*, vol. 26, p. 542, Nov. 20, 1935.
[10] *Ibid.*, vol. 24, p. 150, Aug. 8, 1934.
[11] *Ibid.*, vol. 24, pp. 59, 70-71, July 18, 1934.
[12] *Ibid.*, vol. 26, p. 541, Nov. 20, 1935.
[13] As long ago as 1917, after experience with depreciated provincial issues of paper currency in Changsha, the writer, then treasurer of Yale in China, was careful to emphasize the word "silver" in all contracts and regulations, and to insist on receiving silver for rents and tuitions whenever paper money was at a discount.

As time went on the contingency guarded against by the silver clause became more possible. By the beginning of 1934 there were prospects of American silver legislation which would raise the world price of silver and with it the exchange value of the Chinese dollar. Since this would tend to cause price deflation in China it would be to the interest of the country for the Chinese government to take counter-measures. A suggestion that China should reduce the silver content of her dollar had been published in December, 1933.[14] This proposal received wide publicity, and although at the time it was considered hardly practicable, it represented a possibility to be considered. Rumors of such contemplated action cropped up again from time to time during the next two years, usually bringing forth official denials.

It is of interest to note, however, that a strong borrower was able to secure funds without committing itself to a silver obligation. In May, 1934, the Shanghai Municipal Council issued $7,000,000 of 30-year 5 per cent debentures at 102½ without a silver clause. In a statement published at the time the following explanation of this action was given:

> In recommending that no further definition of the weight and fineness of the dollar be given than "Chinese Standard Silver Dollars," the treasurer stated that it would in his opinion be improper to impose a potential burden on the ratepayers in respect to the new loan in having to provide funds for the equivalent of the silver content of the dollar at any time. The Council's credit stood higher than ever before, and he considered it should not adopt a dangerous principle and potential risk.[15]

The omission of the silver clause occasioned some correspondence and editorial comment in the English newspapers in Shanghai, but subscriptions were received to nearly four times the amount of the offering.[16]

The Export Tax on Silver, October, 1934

When the price of silver began to rise in the summer of 1934, consequent upon the operation of the United States Silver Purchase act, China exchanged fruitless correspondence with the American authorities, and finally, in October, placed a tax on the export of silver and a few months later supplemented this action by obtaining the coöperation of foreign and Chinese banks.[17] Although these measures were effective in stopping the recorded exportation of silver, which had amounted to some $260,000,000 Chinese currency in 1934, the white metal thereafter was smuggled out of the country at about the same rate.

The export restrictions kept the exchange value of the Chinese dollar about 20 per cent lower than its bullion value in foreign markets, and thus

[14] A. B. Lewis and Chang Lu-luan, *Silver and the Chinese Price Level*, College of Agriculture and Forestry, University of Nanking, Nanking, December, 1933, 39 pp.

[15] *Municipal Gazette*, Shanghai, June 1, 1934.

[16] *North China Daily News*, Shanghai, June 1, 1934.

[17] For a fuller account see Dickson H. Leavens, "American Silver Policy and China," *Harvard Business Review*, vol. 14, pp. 45-58, Autumn, 1935.

took China off the silver standard, when looked at from an international standpoint. Within the country, however, silver remained in circulation, although there was a tendency, especially in some districts, to restrict the use of hard money and to increase the circulation of bank notes. Until the latter part of 1935, however, payments in bank notes or checks were entirely acceptable in Shanghai, and no question of the enforcement of silver clauses arose.

The Departure from the Silver Standard, November, 1935

During October, 1935, the exchange value of the Chinese dollar dropped rapidly, and there were many rumors that some change in the monetary system was contemplated. On Sunday, November 3, the government announced that from November 4, bank notes issued by the three government banks should be full legal tender, that all debts expressed in terms of silver should be discharged by the payment in legal tender notes of the nominal amount due, that all holders of silver must exchange it for legal tender notes, and that the exchange value of the Chinese dollar would be kept stable at its current level.[18]

This order definitely put China off the silver standard and nullified the silver clause in all contracts made by those subject to Chinese law. Moreover it involved a considerable depreciation of the exchange value of the dollar below its bullion value. The exchange value at which the government contemplated holding the dollar (and at which it actually has kept it) was about 30 cents, United States currency, while the bullion value, at the then current price of 65⅜ cents per ounce for silver, was about 49 cents. There thus was a devaluation to about the same extent as the 1934 devaluation of the American gold dollar. It should be noted, however, that about half the devaluation was already an accomplished fact; for the exchange rate had been under 40 cents for several months.

The Legal Position of Foreign Debtors

Since Americans, Britons, Japanese, and several other nationalities in China are still under the extraterritorial jurisdiction of their own officials and subject to their own national laws, it is doubtful whether the Chinese order of November 3 could be enforced against them. In view of this condition, the British ambassador, acting under authority which was vested in him, issued early on November 4 the King's Regulations forbidding British subjects to make payments in silver, under penalty of imprisonment for a period of not exceeding three months, or a fine not exceeding £20, or both.[19] These regulations did not extend to requiring delivery of silver to the Chinese government; British banks continued for a time to hold their stocks, although eventually they surrendered them. Other gov-

[18] *Finance and Commerce,* vol. 26, p. 487, Nov. 6, 1935.
[19] *North China Herald,* Shanghai, vol. 197, p. 222, Nov. 6, 1935.

ernments having extraterritorial jurisdiction in China did not follow the British example; but so far as everyday transactions were concerned their nationals had little choice but to acquiesce in the general inconvertibility of bank notes and deposits.

The Reception of the New Currency Plan

Soon after the promulgation of the Chinese order, a meeting of representatives of British companies and banks was held to consider the question of silver obligations. A resolution was passed that

> . . . without prejudice to any question of law, payment of obligations expressed in terms of Mexican or Chinese standard dollars should be made and accepted by British subjects in Chinese legal tender notes to the same nominal amount.[20]

This resolution, of course, had no legal force, but probably represented the general feeling of the British community at the time. The situation prior to devaluation had been one of such monetary stringency and such stagnation of trade, that the measure had been welcomed generally and had been followed by a drop in interest rates and by revival of business activity and confidence. Since the government banks had silver reserves whose value was increased from 60 per cent of their note issues to approximately 100 per cent by the devaluation measure, and also had a good supply of foreign exchange, it was the general belief that they would have no difficulty in maintaining the exchange value of the Chinese dollar at the set level of about 30 cents, United States currency. Under these circumstances, and with examples abroad of court decisions and of the general, if sometimes regretful, acquiescence in gold clause repudiation in the United States, there was not the protest which might have arisen had the departure from the silver standard been made a year or two earlier.

The Case of Central Properties, Ltd.

The first case of a silver clause to come up for discussion was that of Central Properties, Ltd. This British company had arranged a mortgage loan to the British owner of several valuable business sites in the International Settlement. To finance this loan it had issued, on March 1, 1934, \$18,000,000 of 10-year $5\frac{1}{2}$ per cent debentures. These debentures contained a clause which provided for payment of principal and interest in the defined silver dollar, or in legal tender for the amount of the cost of equivalent silver bars, with adjustment for coinage fee; the company's mortgage from the owner of the land contained a similar clause.

In anticipation of the interest payment due December 31, 1935, the directors of the company called a meeting of the debenture-holders on December 2, and put before them a resolution to the effect that the debenture-

[20] *Finance and Commerce,* vol. 26, p. 541, Nov. 20, 1935.

holders should accept bank notes for the December 31 payment and to that extent modify their rights.[21]

The chairman of the company stated that the silver clause had been worded very carefully to provide the maximum possible protection to investors. The opinion of counsel now was that it probably would be upheld in a British court. The chairman argued, however, that the silver clause had not been intended to be punitive to the borrower, but merely to protect the lenders against any possible hardship from inflation. He admitted that there had been a technical inflation, but that in fact it had done no more than offset the previous deflation which had resulted from the operation of the American Silver Purchase act. It merely had restored the *status quo* of Chinese currency in relation to foreign currencies, and had not brought any hardship, inequity or damage to the debenture-holders. Moreover, if the debenture-holders should enforce the silver clause against the company, the company in turn could enforce the silver clause against the mortgagor. The chairman did not believe, however, that it would be expedient to attempt to enforce either silver clause at the time, although they should be enforced if later developments caused serious inequity.

In opposition to the company proposal that the debenture-holders should accept legal tender notes without prejudice to their rights, the trustees of the Shanghai Municipal Council Pensions and Provident Fund made a counter proposal that the company should pay in accordance with the silver clause without prejudice to its rights. The trustees pointed out that with the abolition of the tael the silver clause had become a desirable safeguard to the interests of investors, and probably nearly $100,000,000 had been raised in Shanghai from prudent investors by means of debentures containing silver clauses. The borrowers should live up to their obligation, now that the conditions had arisen against which this clause was intended as a safeguard.

It is of interest that representatives of the Shanghai Municipal Council, which had refused to obligate itself with a silver clause, should be arguing for the enforcement of such a clause against its debtor.

This counter proposal and another, which would require the company to deposit in a bank pending final determination of legal questions the excess amount which would be required to carry out the silver clause, were voted down. The original motion, accepting bank notes for the December 31 payment, was carried by 11 votes representing $11,503,000 of debentures, with 6 votes representing $1,116,500 opposed.[22]

Editorial comment in the local British press approved the action of the debenture-holders in waiving rights on the December 31 payment and in

[21] *North China Herald*, vol. 197, p. 441, Dec. 11, 1935.
[22] *Ibid.*

awaiting future developments.[23] Correspondents varied in their reactions, as did public discussion.[24]

Subsequent Status of the Silver Clause

On December 31, 1935, a meeting of the debenture-holders of the Metropolitan Land Company, Ltd., passed a resolution agreeing to accept legal tender notes for December 31 interest, but under protest and without prejudice to any legal rights.[25]

Meanwhile the silver clause was becoming of much less importance. Because of the slowing down of American Treasury purchases of silver in the open market, the price dropped from 65⅜ cents per ounce on December 7, 1935, to 44¾ cents per ounce on January 20, 1936, at which level it has since remained. At the latter price the bullion value of the Chinese silver dollar is about 34 cents, United States currency. Since the exchange value of the managed paper currency has been maintained steadily in the neighborhood of 30 cents, the debenture-holders would gain very little by insisting on the literal fulfillment of the silver clause.

When the matter of June 30, 1936, interest payments came up, there was some further discussion of the subject. A committee of debenture-holders of the Metropolitan Land Company, Ltd., in April had suggested to the directors of the company that the silver clause debentures should be exchanged for a new issue bearing a higher rate of interest. The directors were unwilling to offer any such inducement. The committee then urged debenture-holders to call upon the company either to fulfill the silver clause, or else to get a ruling from the British Supreme Court in China. The directors replied that they could not accept any of the committee's suggestions, that a court ruling would be very expensive, and that they would ask the debenture-holders again to accept legal tender without prejudice to future rights.[26]

When a meeting of the debenture-holders was held early in June, however, they voted to accept legal tender notes in full settlement of the June 30 interest "unless anything untoward happens in the meantime." This proviso was inserted to satisfy some who were alarmed by the uncertain political situation of the moment.[27] The debenture-holders of Central Properties, Ltd., by a vote of 9 to 2, also agreed to accept legal tender on June 30.[28] Thus the question was settled for another six months.

[23] *North China Herald,* vol. 197, p. 425, Dec. 11, 1935; *Finance and Commerce,* vol. 26, pp. 603-604, Dec. 4, 1935.

[24] *North China Herald,* vol. 197, pp. 448-449, Dec. 11, 1935; p. 490, Dec. 18, 1935; *Finance and Commerce,* vol. 26, p. 631, Dec. 11, 1935.

[25] *North China Herald,* vol. 198, p. 61, Jan. 8, 1936.

[26] *Finance and Commerce,* vol. 27, pp. 616-17, June 3, 1936.

[27] *Ibid.,* vol. 27, p. 644, June 10, 1936.

[28] *Ibid.,* vol. 27, p. 673, June 17, 1936.

The Legal Status of the Silver Clause

The legal questions as to the enforcement of silver clauses in China are complicated and can be mentioned only briefly here.[29] In the case of Chinese debtors, such as the City of Greater Shanghai, and innumerable Chinese tenants who have signed leases containing a silver clause, suit would have to be brought against them in the Chinese courts. These courts almost certainly would uphold the government decree as superior to contractual obligations. Chinese government bonds and other Chinese securities not containing an explicit silver clause would, *a fortiori,* stand little chance of being made payable in anything except current legal tender.

In the case of obligations signed by British, American, French, Japanese and other individuals and corporations under the extraterritorial jurisdiction of their own courts, the various national laws and precedents would apply. Where these were not clear, there might possibly be a willingness to take Chinese law and custom into account. The courts perhaps might give some weight to the degree of divergence of the exchange value of the Chinese dollar from its bullion value, and to the current commodity price level, and might be inclined to uphold the silver clause if it could be shown that creditors were suffering real hardship. The British ambassador's action of November 4 in ordering his nationals to meet silver contracts with legal tender notes indicates a coöperative spirit on the part of that government, which might or might not be followed by other governments, depending upon various political factors.

Conclusions

The future of the silver clause in China probably will depend largely upon the future relation between the bullion value and the exchange value of the Chinese dollar. If the margin remains small, debenture-holders may not feel any great hardship, and may not consider it worth while to attempt to enforce rights which the courts might not uphold. Silver clauses then will gradually disappear as existing issues mature or are refunded.

On the other hand, if the margin should increase, either because of the inability of the Chinese government and banks to support the exchange value of the currency, or because of an increase in the world price of silver, then it is probable that debenture-holders will attempt to enforce their rights. Whether they will succeed seems doubtful in view of the fate of the gold clause in the United States.

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[29] For a lawyer's discussion, see R. E. Kahn, "International Legal Currency Problems," *Finance and Commerce,* vol. 27, pp. 283-285, March 11, 1936.

GOLD MALDISTRIBUTION

Maldistribution of gold may result from the failure or inability of some countries to adjust the volume of their notes and deposits to the size of their gold reserves, from the existence of impediments to trade, and from differences among the various countries in financial practices. Strictly, gold maldistribution occurs whenever the world's stock of monetary gold is divided among the various countries in such proportions that a given unit of gold does not perform an equivalent amount of money work in each country. Thus maldistribution is not a new phenomenon but was clearly observable before the war. Since 1914 apportionment has become somewhat more lopsided. However, the maldistribution of gold is not a major catastrophe; rather, it is a symptom of disorder in international economic relations.

The phrase "gold maldistribution" is commonplace in post-war economic vernacular. It implies that the apportionment of the world's monetary gold supply among the various countries is unsatisfactory and that changes are desirable, if not mandatory. Clearly, however, use of the term *mal*distribution calls for a definition of what is meant by *favorable* or *satisfactory* distribution.

Meaning of Maldistribution

Most of the writers who declare that gold is or has been maldistributed during the post-war era contend that the policy or fate of certain countries to pile up excessive reserves beyond their monetary requirements has led to deficiencies in the reserves of other countries, and has lessened the total *effective* gold reserve of the world. Consequently, it is argued, countries with deficient gold reserves have been forced to reduce the quantity of their total notes and deposits, and to suffer declines in their general price levels. The countries with excessive reserves, on the other hand, having failed to expand their notes and deposits in accordance with the size of their reserves, have not made possible a rise in prices commensurate with the volume of their gold stocks. Thus, since (1) the countries with deficient reserves have been forced to deflate, and (2) the countries with excessive reserves have chosen not to inflate, gold maldistribution has resulted and the world has been subjected to an inevitable price decline.

Moreover, it is contended, this situation has been further aggravated by the fact that the reluctance to inflate, on the part of the countries whose reserves have been excessive, has caused these countries to become chronic recipients of gold. Thus maldistribution has tended to become increasingly acute until countries with deficient reserves have been forced to depart from the gold standard, thereby disrupting the international monetary system.

To those who subscribe to this analysis of post-war events, the significant test of maldistribution is this: Do the various countries permit the volume of their notes and deposits to vary with changes in the size of their gold reserves? If not, then maldistribution is likely, if not inevitable.

A second line of argument declares that gold maldistribution has resulted not so much from any shortcoming of the monetary system as from certain

non-monetary factors, particularly the wide variety of rules, regulations and restrictions which have served to impede the domestic and foreign commerce of the post-war world. According to this view, the proper distribution of gold can be achieved only if the processes of trade and international intercourse are permitted to function with reference not only to gold and commodities but also with reference to capital and labor. Thus, the distribution of gold is regarded as a function of the distribution of commodities and of the factors of production. When there is maldistribution of the latter in the sense that prices, interest rates and wages are not uniform throughout the world (neglecting costs of transfer), then the stage is set for gold maldistribution. Since, in theory, the most favorable distribution of the world's factors of production would result in common world-wide margins, and since the most favorable distribution of the world's goods would result in uniform prices (still neglecting costs of transfer), any impediment to the mobility of the factors of production or of commodities would lead to their maldistribution. At the same time, since gold is the basis for the circulating medium of exchange, any impediment to trade would also be likely to result in a maldistribution of gold.

To those who would follow this line of argument, the test of gold maldistribution is this: Does the exchange value of gold everywhere approach uniformity, neglecting cost of transfer of gold and of goods? If not, then gold is maldistributed.

This analysis is sound providing one assumes that a given amount of gold performs the same amount of money work in every part of the world. This assumption, however, is quite unwarranted, for the varying laws, usages, customs, and apprehensions of the different countries may lead to considerable variations in the intensity with which gold is utilized as a monetary base. Hence, it may be easily possible for gold to be maldistributed, in one sense of the term, in spite of the fact that its value approaches everywhere the theoretical uniformity indicated above. Some countries may use gold wastefully by allowing it to circulate; whereas, others may use it intensively as a base for astoundingly large credit pyramids.

From this it follows that there is a third test of gold maldistribution: Do the various countries utilize gold with equal intensity? If not, then gold will probably be maldistributed, because the wasteful users of gold will undoubtedly receive and retain a surplus of specie in relation to the amount of money work which is to be done within their internal economies.

None of these three tests is fundamental or complete in itself. It is probably true that the term "gold maldistribution" can be given meaning only to the extent that it refers to a division of the world's specie among the countries in such proportions that a given unit of gold does *not* perform an equivalent amount of money work in each country. This maldistribution may, however result from three separate kinds of circumstances: (1) the

failure or inability of some countries to adjust the volume of their notes and deposits to the size of their gold reserves, (2) the existence of impediments to trade, or (3) differences in financial customs and methods and variance in the state of commercial development.

It has been customary to omit this last factor as a source of gold maldistribution and to regard the different monetary habits and customs of the various countries as given. Thus favorable distribution is said to exist whenever world conditions have been stable for a sufficiently long time to allow the monetary institutions and price levels of each country to become adjusted to the allotment of gold which that country was able to obtain in competition with the other nations. Whenever this adjustment or equilibrium was disturbed so that is became necessary for some countries to alter their habits or customs, then it was contended that gold had become maldistributed. However, as a matter of fact, such changes might have resulted in *more* favorable distribution, and yet have seemed unfavorable because of the immediate adjustments required.

Obviously, the world has never witnessed a period when there was not a very considerable amount of gold maldistribution. And so, we must not regard post-war "gold maldistribution" as something quite new or unusual; instead it is merely an aggravated form of a common ailment.

The Extent of Gold Maldistribution

As indicated above, the term *gold maldistribution* may be defined as that division of the world's total supply of monetary gold among the various countries in such proportions that a given unit of gold does *not* perform an equivalent amount of money work in each country. Although the evidence of statistical data indicates that the *degree* of maldistribution has been greater since the war than before, nevertheless it indicates also that many of the current statements concerning the extent of maldistribution are exaggerated and misleading.

To estimate the extent of gold maldistribution requires, as is implied in the above definition of the term, a measurement of the *total* amount of monetary gold, *i.e.,* central bank reserves plus all other monetary gold, in each of the various countries and also a measurement of the total amount of money work done in each. Favorable, or theoretically equitable, gold distribution may properly be said to exist whenever the ratios between total monetary gold (G) and total money work done (W) are identical for all of the countries ($1, 2, 3,$ ——n), *i.e.,* when:

$$\frac{G}{W_1} = \frac{G}{W_2} = \frac{G}{W_3} = \text{————————} = \frac{G}{W_n}$$

Conversely, whenever these ratios are unequal, then maldistribution may be said to exist; the greater the inequality, the greater the maldistribution.

Exact measurements of *total* monetary gold stocks are difficult to obtain, and one must rely chiefly upon crude estimates; and it is perhaps impossible to secure adequate measures of money work done. Nevertheless fairly accurate estimates of these entities may be obtained.

"Money work done" within any given period may be defined as the total volume of transactions performed. It may be theoretically measured (1) by multiplying the total volume of circulating media by the rate of its turnover for the period, or (2) by determining the total amount (expressed in dollars) of all the pecuniary transactions performed during the period. Either of these measures, however, is not available for any extended period of time; hence substitute measures must be used which will give at least some indication of the money work done in each country *relative* to that in other countries. Perhaps, for this purpose, estimates of national wealth and income (deflated for price level changes) are as useful as other data, although they give only approximate indications of the volume of actual *transactions*.

TABLE I.—WEALTH, INCOME, AND GOLD STOCKS OF FOUR COUNTRIES[1]
(Expressed in terms of old U. S. gold dollars of 25.8 grains 9/10 fine; 000,000 omitted)

End of 1913	*France*	*Germany*	*United Kingdom*	*United States*
Estimated national wealth	$58,000	$82,000	$71,000	$202,000
Estimated national income	6,800	10,200	10,800	34,100
Estimated total gold stock	1,700	995	770	1,924
End of 1929				
Estimated national wealth	60,000	72,000	73,000	215,000
Estimated national income	7,800	9,800	11,100	49,800
Estimated total gold stock	1,641	560	719	4,284
End of 1933				
Estimated total gold stock	3,022	92	928	4,012
End of November, 1935				
Estimated total gold stock	2,589	21	961	5,853

[1] Data are from following sources: Estimated Total Gold Stock at end of each year: 1913 data are from United States Director of the Mint, *Annual Reports*, 1914 and 1915; 1929 data are from League of Nations, *Interim Report of the Gold Delegation of the Financial Committee*, pp. 114–15; 1933 and 1935 data represent central bank and government gold reserves, figures taken from *Federal Reserve Bulletins*.

Estimated National Wealth and Income: data are based on a wide variety of sources and are not to be regarded as strictly accurate but rather as roughly approximate. Most important sources are H. E. Fisk, *The Inter-Ally Debts;* E. R. A. Seligman, "Comparative Tax Burdens in the Twentieth Century," *Pol. Sci. Quart.*, March, 1924, p. 142; E. L. Bogart, *The Direct Cost of the Present War;* Sir Josiah Stamp, *Current Problems in Finance and Government;* H. E. Fisk, "Some New Estimates of National Income," *Am. Econ. Rev.*, 1930, p. 23; E. L. Bowley, *The Division of the Product of Industry;* W. I. King, *The National Income and Its Purchasing Power;* W. I. King, *The Wealth and Income of the United States;* etc.

Table I presents data on the national wealth and income (deflated in terms of cost of living indexes), and on the total gold stocks of the four leading countries for selected years since 1913. Table II indicates the ratios

between gold stocks and national wealth and income for these same years.

It will be readily observed from these tables that even in 1913, gold was very markedly maldistributed if one may properly regard national wealth or income as a criterion of the money work done in a country. The United States, before the war apparently utilized gold more economically than any of the other countries. France required more than twice as much gold, in order to accomplish a given amount of money work, as any one of the other four countries considered. By 1929, the significant changes in gold distribution, relative to national wealth and income, were: a relative shortage of gold

TABLE II.—GOLD STOCK AS PERCENTAGE OF DEFLATED NATIONAL WEALTH

	1913	*1929*	*1933*[1]	*1935*[1]
France	2.9	2.7	5.0	4.3
Germany	1.2	.8	.1	.03
United Kingdom	1.1	1.0	1.3	1.3
United States	1.0	2.0	1.9	2.7

GOLD STOCK AS PERCENTAGE OF DEFLATED NATIONAL INCOME

	1913	*1929*	*1933*[1]	*1935*[1]
France	25.0	20.7	38.7	33.2
Germany	9.8	5.7	.9	.2
United Kingdom	7.1	6.5	8.4	8.7
United States	5.6	8.6	8.0	11.8

[1] Deflated national wealth and income for 1933 and 1935 are assumed to be equal to that for 1929; internationally comparable later data are not obtainable. These estimates are not correct absolutely, but nevertheless the figures probably fairly represent the *relative* positions of the various countries. Only this *relativity* is required to be shown here.

in Germany had become evident, and a relative surplus of gold had appeared in the United States. And in 1933, when the breakdown in business activity and trade had thoroughly penetrated the world, the gold shortage in Germany had become much more acute, England's position had strengthened somewhat, United States had approximately maintained its place, but France had accumulated a great excess of gold. By the end of 1935, France had slightly reduced its gold holdings, Germany's reserve had been practically depleted, England had maintained its position, and the United States had markedly strengthened its gold reserves.

These same facts may be reiterated and the changes in gold distribution can perhaps be shown more adequately by indicating the percentage of the total world's supply of monetary gold which was to be found within each of the four countries during the same years (Table III).

The data presented in Tables II and III indicate clearly that gold mal-

distribution, as the term has been defined in this study, has existed not only during the post-war period, but also, to a very considerable degree, during the years before the war. France, both before and after the war, has been the country with the greatest excess of gold. France's share of the world's gold was not far different in recent years from her share in 1913. However, the national economy of France, as measured by the growth of her wealth and income, has not advanced commensurately with the development of other countries. Consequently, France's share of gold, *relative* to her economic importance, has probably increased markedly.

TABLE III.—NATIONAL MONETARY GOLD STOCKS AS PERCENTAGES OF TOTAL WORLD GOLD STOCK[1]

	1913	*1929*	*1933*	*1935*
France	22.1	14.4	23.1	18.0
Germany	12.9	4.9	.7	.1
United Kingdom	10.0	6.3	7.1	6.7
United States	25.0	37.7	30.7	40.6

[1] The world's total monetary gold supply at the end of each of the years was as follows (expressed in terms of old U. S. dollars of 25.8 grains 9/10 fine):

1913	$ 7,684,200,000
1929	11,369,100,000
1933	13,068,000,000
1935	14,403,000,000

Data for 1913 and 1929 from League of Nations, *Interim Report of the Gold Delegation of the Financial Committee*, p. 62; for 1933 and 1935 extrapolated on basis of estimates in *Federal Reserve Bulletins*, *e.g.*, Dec., 1935, p. 821.

On the other hand, although the proportion of the world's gold held in the United States has increased, so also has the relative economic importance of the United States. Therefore, the gold stock of this country, though excessive, is not far beyond what might be expected in view of its rapid economic progress. There can be no doubt that Germany has, since the war, experienced a genuine gold shortage.

The Significance of Gold Maldistribution

There is no economic "law" which compels a country to possess a given amount of gold. Neither is guidance necessarily to be found merely by adhering to that artificial and fragile institution which we know as the gold standard. In fact, it has been clearly demonstrated (for example in the Scandinavian countries) that departure from this standard does not inevitably result in monetary chaos, but that instead it may result in exhilarating freedom from unreasonable and harmful external influences. Thus we must be cautious in attributing harmful effects to gold maldistribution *per se*. It is true that gold maldistribution may have inconvenienced certain

countries or that it may have required them to revamp their monetary institutions and customs. However, maldistribution of monetary gold may be regarded as a symptom more than as a cause of world disorder.

The only real significance which can attach to gold maldistribution is that those processes of trade are no longer operating which once made it possible for most of the world intermittently to abide by the practices which may be described collectively by the term "gold standard." Thus gold maldistribution is merely a symptom of change in the monetary or commercial habits, customs and laws of the various countries. If all the countries of the world would persistently and inflexibly maintain the conditions necessary to the functioning of the gold standard, then gold maldistribution would be impossible (except temporarily). These conditions are: (1) the maintenance of free markets for gold; (2) the reduction to a minimum of restrictions and regulations on trade, capital transfers and gold movements; and (3) variation of the volume of notes and deposits according to changes in national gold stocks.

Numerous factors, however, have induced governments and central banks to remove or to modify these conditions. The market for gold has been arbitrarily controlled or destroyed; trade, capital transfers, and gold movements have been subjected to minute regulations; and the volume of circulating media of payments has been determined by factors other than the size of the gold reserve. In fact, it is probably true that central banks are sensitive to gold movements in inverse ratio to the extent of their reserves. The inevitable result has been gold maldistribution which, though frequently regarded as an important causative factor in world-wide distress, has been chiefly important as a mere symptom of more fundamental disorders.

However, in common with many other economic phenomena, the process of gold maldistribution is cumulative and reactive in its effect, once it has begun to operate. During war and post-war years, the failure of certain individual countries to abide by the conditions necessary to the operation of the gold standard system has led or forced other countries to defend their gold reserves by retaliatory control measures. The ultimate result, of course, has been virtual annihilation of the gold standard and of the monetary and trade practices which it represented. Thus, although the chief significance of gold maldistribution is the fact that it has been symptomatic of underlying conditions, yet in one sense it may be regarded as a secondary causative factor in bringing on the monetary chaos of the past decade.

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PLEDGED REVENUE AS SECURITY FOR GOVERNMENT BONDS

The practice of pledging revenue in support of government bonds has neither protected investors nor operated to the advantage of the issuing sovereignties. Investors have relied on this phantom security only to find, in times of adversity, that they were accorded no preference in compromise settlements over bondholders owning unsecured issues.

The experience of the issuing governments has been equally discouraging. The significance accorded pledged revenue by the investors and the bankers and the ease of marketing bonds with this financial device has led nations to burden themselves with obligations they have been incapable of assuming. Furthermore, the hypothecation of the revenues of an economically undeveloped country may render its entire fiscal system inflexible. This practice tends to congeal the tax system into the pattern it had at the time the loan was issued.

I

The practice of pledging revenue for the security of government debts was used at least as early as 1187. Daru describes a Venetian loan issued in that year and secured by revenue derived from salt and seigniorage.[1] Perrens mentions another early use of this expedient in describing a loan to Florence, in 1307, issued for the purpose of raising funds for the War of Arezzo.[2] Not until two hundred and eight years later was this security used in France. Francis I, ascending the throne in 1515, was the first French king to raise loans by hypothecating revenues.[3]

Almost two centuries passed before constitutional government, the prerequisite to large-scale unsecured borrowing, was achieved by the British in 1689. Thus, although the history of the British national debt begins with the Revolution of 1689, the kings had secured funds prior to that date by pledging jewels and mortgaging revenues. Despite the attainment of constitutional rule, England's political condition and credit rating were regarded with suspicion in 1690. Consequently, to meet the expenses of war, Parliament found it necessary to offer a mortgage on the excise duties.[4] The practice of mortgaging revenue continued in England during the

[1] Pierre Daru, *Histoire de la République de Venise* (Paris, F. Didot, Père et Fils, 1821), Tome 1, pp. 203-04.

[2] To meet this emergency a mortgage was placed on the revenue derived from the taxes on salt and wine. The rentals of the shops on the Pont Vecchio were placed under the same mortgage. F. T. Perrens, *Histoire de Florence* (Paris, Hachette et Cie, 1877), Tome 111, pp. 261-62.

[3] Francis I borrowed from the city of Paris by alienating to it certain aids and customs which became known as "rentes sur l'Hôtel de Ville." This effective device, once discovered, was used with such successful abandon that, by 1561, the regent, Catherine de Medici, was confronted with a national debt of 74,000,000 francs. With characteristic ingenuity she proposed to reduce the royal obligations by seizing ecclesiastical property. Only by a most adroit diplomatic maneuver was the clergy able to avert the confiscation. F. W. Hirst, *The Credit of Nations* (U. S. Senate, 61st Congress, 2nd Session, Document No. 579, 1910), p. 77.

[4] Again, in 1691, two loans were raised: one secured by the duties levied on East Indian imports, the other by the duties on wine. Because the emergency continued, several million pounds were borrowed in 1695 by pledging the taxes levied on bachelors, widows, marriages, births and burials. *Ibid.*, pp. 13-16.

earlier part of Queen Anne's reign. By the time of George I, however, the use of this device had declined in importance because England's national credit had improved—a result of economical administration and peace.[5] Later Adam Smith commented, somewhat inaccurately, upon the use of pledged revenue as a means of raising funds.[6]

His contention, that a nation begins its borrowing career without having to put up special security, is not borne out by the early loans obtained by the United States. Before the surrender of Lord Cornwallis in October, 1781, and prior to the European recognition of the independence of the United States, Franklin and Adams, in behalf of the United Colonies, were negotiating for a loan in Paris with the house of John de Neufville and Sons. This firm offered to raise a large sum for the colonies provided that title to all the public lands in the country be made over to M. de Neufville. The negotiations, of course, were not successful.[7] Even after the formation of the new government, under the Constitution, the United States was forced to resort to the practice of hypothecating revenues in support of its bond issues.[8]

II

That the practice of pledging revenue has flourished is disclosed by the fact that 22 per cent of the 933 direct government obligations examined have pledged revenue as security (see Table I). Investment houses undoubtedly have stimulated the widespread acceptance of these bonds. In a random selection of 25 advertisements of government bonds having pledged revenue as security and sponsored by important investment houses in the United States, 24 mentioned the fact that the bond in question was

[5] *Ibid.*

[6] "Nations, like private men, have generally begun to borrow upon what may be called personal credit, without assigning or mortgaging any particular fund for the payment of the debt; and when this resource has failed them, they have gone on to borrow upon assignments or mortgages of particular funds." Adam Smith, *Wealth of Nations*, Dugald Stuart ed. (London, Routledge), p. 727.

[7] *Tenth Census of the United States* (1880), vol. vii, "Valuation, Taxation and Public Indebtedness," p. 310.

[8] Dewey describes the mortgaged revenues under the funding act of August 4, 1790, as follows: "The national revenues were pledged to the payment of interest on domestic stock, subject only to the requirements necessary for fulfilling the conditions of the foreign loan, which was always regarded as a prior claim; and the proceeds of the sales of land in the Western territory were also pledged for the discharge of the debt." Davis Rich Dewey, *Financial History of the United States* (New York, Longmans, 1934), p. 96.

The *Tenth Census of the United States* furnishes other examples. "Under the act of May 31, 1796, an abortive attempt was made by the government to borrow $5,000,000 for the purpose of paying a debt due the Bank of the United States. The bank, since its charter in 1791, had made many temporary loans to the government in cases of emergency, and in anticipation of revenues." From the same source we are given an account of the loan of 1789 issued to obtain money to resist a French invasion. This loan was reimbursable at the pleasure of the United States after 15 years and was secured by a pledge of import and tonnage duties. (Pp. 336-38.)

secured by a lien on revenue.[9] This feature was not only mentioned but its importance was stressed, frequently to the extent of submitting statistical data to prove the adequacy of the pledged revenue to cover the service of the bond.

The importance accorded this security is reflected again in the regulations

TABLE I.*—SECURITY OFFERED IN SUPPORT OF 933 GOVERNMENT BONDS

Type of security	*Number of bonds*	*Weighted ratings (highest 9; lowest 1)*	*Approximate Moody rating*
Pledged revenue	184 (19.7 per cent)	4.6	Ba
Pledged property	17 (1.8 per cent)	4.5	Ba
Pledged revenue and pledged property	25 (2.7 per cent)	3.9	B
Negative pledge	45 (4.8 per cent)	6.0	Baa
Others (unsecured)	622 (71.0 per cent)	4.7	Ba
TOTAL	933 (100.0 per cent)	4.8	Ba

* The 933 bonds used in the compilation of this table are the direct obligations of all national governments listed in Moody's *Governments*, 1934. Bonds of states, colonies, protectorates, or other political subdivisions are not included. Government guarantees of the bonds of political subdivisions are likewise omitted. The following weights have been used in this computation:

Weight	*Moody's rating*	*Description*
9	Aaa	Highest rating
8	Aa	
7	A	
6	Baa	
5	Ba	
4	B	
3	Caa	
2	Ca	
1	C	Lowest rating

of the New York Stock Exchange. In a memorandum under date of February 2, 1925, the Exchange requires that a complete statement of the revenue or assets pledged under present and other loans, together with a summary of revenue receipts and income for the preceding five years, accompany every foreign government bond submitted for listing. More recently, the Securities Exchange Commission, pursuant to the Securities Exchange act of

[9] The bond advertisement which did not was the German Government International $5\frac{1}{2}\%$ Loan of 1930 issued in this country by J. P. Morgan and Company and 44 other investment houses. The many ramifications of the security behind this bond precluded an adequate description in an advertisement. The advertisement was more in the nature of an announcement than an explanation of the bond.

1932, provides for the inclusion of data relating to the pledged revenues offered in support of the bond issues of foreign governments.[10]

The rating agencies, also, devote considerable attention to bonds secured by hypothecated revenues. An examination of Table I, showing the security offered in support of 933 government bonds, shows that bonds secured by pledged revenues, as a group, are given no higher rank by Moody's than those secured only by the government's promise to pay.[11] When, however, the securities classified in Table I are arranged in Table II, according to the nations using such guarantees, an entirely different aspect of the rating significance accorded to this lien is disclosed. Table II is a classification of countries which have outstanding issues of both secured and unsecured bonds. It shows that the pledged revenue secured bonds of 22 of the 29 nations listed have been given a higher rating by Moody's than has been accorded to the unsecured bond issues of the same 22 nations. It shows that 4 countries have been granted the same average rating for their pledged revenue bonds as for their unsecured bonds; and only 3 countries have a higher average rating on their unsecured bonds than on their mortgaged revenue bonds. Unmistakably, then, the significance of pledged revenue as security looms large to this rating agency as support for the external issues of nations which make routine use of such promises.[12]

Although only 22 per cent of all government bond listings in Moody's are pledged revenue bonds, over 40 per cent of government bonds listed on both the London Stock Exchange and the New York Stock Exchange

[10] Section 12 (b) and (c) of the Securities Exchange act of 1934 has provided Form 18, to be ". . . used for applications for the permanent registration of securities of foreign governments and political subdivisions thereof, filed on or after July 1, 1935." This form contains the following provisions relative to pledged revenues:

"3. For each issue of securities to be registered hereunder:

(d) State whether secured by any lien, the kind thereof, and briefly describe the property or revenues subjected to such lien.

(e) If by law, decree, or other administrative action, the security is not being serviced according to its original terms, outline briefly the provisions of such law, decree, or other administrative action."

[11] Moody's evaluation of a pledge of both assets and revenue affords even less assurance; these bonds, as a group, are given the lowest average rating. The highest average rating is accorded bonds having a security characterized by the term, "Negative Pledge." Bonds having this security, although not specially secured at the time of issue, are to be secured equally and ratably with any future loan for which any assets or revenues of the country may be pledged. The reason for this high rating is to be found not in the significance given this type of surety, but rather in the general use by those countries having a high credit rating, *i.e.*, high enough to permit them to borrow without offering special security.

[12] The explanation, of course, for the disparity in the importance imputed to pledged revenue for rating purposes in Table I and in Table II is due to the fact that those countries not using pledged revenue (and omitted from the computation in Table II) generally have a higher credit rating than those hypothecating revenues. This factor increases the weighted average rating of the unsecured bonds of the nations enjoying high credit standing.

have pledged revenue as security. Table III offers additional evidence of the importance investors attach to this type of security.

TABLE II.*—AVERAGE RATINGS OF CLASSIFIED SECURITIES OFFERED IN SUPPORT OF THE BONDS OF NATIONS HAVING OUTSTANDING BOTH SECURED AND UNSECURED ISSUES

Nation	*Weighted average rating of bonds secured by:*				
	Pledged revenue	*Pledged property*	*Pledged revenue and pledged property*	*Negative pledge*	*No pledge (unsecured issues)*
Argentina	6	6	5.7	6	5.3
Austria	5				3.7
Bolivia	3		3		2
Brazil	4.2			3	3.7
Bulgaria	4		4		3.4
Chile	2			3	2.5
China	2.3	2.7	3.5		1.5
Colombia	5	5		5	4
Costa Rica	4				5
Cuba	4.3				4
Czechoslovakia	6	5			5
Ecuador	2		2		1
Egypt	6				6
Esthonia	6				4
France	8				8
Germany	6				5
Greece	3.4		3.2		4
Hungary	5				2.5
Iceland	6			6	6
Italy	7				6
Mexico	2				2
Panama	5				3
Peru	2.6				2.1
Poland	6	5	5		5
Portugal	5.2				4.5
Roumania	4				3.6
Spain	4.5				4
Uruguay	5	4.7		5	4
Yugoslavia	4	3			3.2

* The above table contains those countries using at least one type of secured and unsecured bond issue. See Table I for source of material and explanation of the weighting system.

III

Despite the reliance of the English and American investors upon the extravagant assurances afforded by a trust contract between the issuing government and the bondholders, the hypothecation of governmental revenue as a protection to the investor appears futile in the light of the wholesale defaults since 1931.

TABLE III.—A COMPARISON OF THE SECURITY BEHIND GOVERNMENT BONDS LISTED ON THE NEW YORK STOCK EXCHANGE AND THE LONDON STOCK EXCHANGE

	Pledged revenue		*Pledged property*		*Pledged revenue and pledged property*		*Negative pledge*		*Others*		*Total*	
		Per cent		*Per cent*		*Per cent*		*Per cent*		*Per cent*		*Per cent*
New York Exchange												
1919[a]	5	(31)	0	(0)	0	(0)	0	(0)	11	(69)	16	(100)
1928[b]	25	(33)	1	(1)	2	(3)	31	(40)	17	(23)	76	(100)
1934[c]	28	(41)	0	(0)	1	(1)	34	(50)	5	(8)	68	(100)
London Exchange												
1919[d]	14	(28)	1	(2)	6	(12)	0	(0)	29	(58)	50	(100)
1928[e]	42	(46)	1	(1)	7	(8)	3	(3)	38	(42)	91	(100)
1934[f]	75	(38)	1	(0)	15	(8)	7	(4)	99	(50)	197	(100)

[a] *Wall Street Journal*, June 27, 1919.
[b] *Ibid.*, June 29, 1928.
[c] *Ibid.*, June 29, 1934.
[d] London *Times*, June 27, 1919.
[e] *Ibid.*, June 29, 1928.
[f] From the Stock Exchange Daily List of Officially Quoted Securities, Friday, June 29, 1934. Published by the Trustees and Managers of the Stock Exchange, London.

In the sanguine years from 1922 to 1930 it was the custom for investment bankers to draw elaborate mortgages and covenants presumably to provide protection for the bondholders in any exigency. The type of revenue mortgaged; provision for the maintenance of a given tax rate; collection procedures; action to be taken in event of default; the appointment of referees to settle disputes and other administrative matters were treated in such a manner as to provide, seemingly, for all possible contingencies. Thus, the lawyers took over from the field of corporation law principles which, although valid in that field, were in no sense applicable to a sovereign nation. That they were dealing with governments instead of creatures of the state seems never to have interfered with their enthusiasm.

An excellent example of the capriciousness of sovereign promises working to the disadvantage of the investor is furnished from the recent financial history of El Salvador. The Salvador Customs Loans are secured by a lien on customs revenues, Loan A having a first lien, Loan B junior to A, Loan C junior to B. The loan contract is specific in the details of collection. It provides that if, at any time, the 70 per cent of customs duties pledged for the service on the loan prove insufficient, and consequently a thirty-day delay in the service of the loan ensues, the first lien, upon demand of the fiscal agent, shall extend over the total of the customs revenues. Finally, the contract provides that any disagreement as to the provisions of the contract shall be submitted to the Chief Justice of the United States Supreme Court whose decision shall be binding on all parties to the contract. The United States formally recognized this contract.

In December, 1931, through a military coup, the Salvador government changed hands. Early in 1932 it seized all the customs revenue including that portion pledged for the payment of the bonds. On February 29, 1932, the new government issued a decree suspending service on the external debt. Investors, many of whom undoubtedly depended upon the participation of the United States in a contingency of this nature, were denied this protection. The United States refused to recognize the new government of Salvador since, by agreement with the Central American republics, a treaty was signed in 1923 in which the contracting parties agreed not to recognize governments coming into power by force.

The Salvador case offers a striking illustration of the extent to which pledged revenues may be adequate and still not prevent default. For the year 1931 the revenue pledged for the service of the Salvador Customs Loan, Series B, covered the service of the issue over 14 times.[13] Despite this the 1932 July coupons went into default. Although this margin is exceptionally high, recent financial history of Roumania, Bulgaria, Greece, Costa Rica and Cuba furnish other examples of bonds which were adequately covered by pledged revenues at the time of default.

[13] *Standard Bond Descriptions*, vol. 6, no. 587, October 1, 1932, sec. 20. FLM, C23.

Not only has adequacy of revenue served as no deterrent to default, but the secured and unsecured holders of the external bonds of foreign nations have fared alike throughout the many compromise settlements effected since the widespread defaults of 1931-33.[14] From an examination of these defaults, it seems, at first glance, as though the bondholders have been able to rely on pledged revenues as a guaranty of payment of principal and interest in the case of the Chinese maritime customs loans and the Brazilian funding loans.

A closer examination of the preferential treatment given to these pledged revenue bonds discloses the fact that the apparent protection afforded by this lien is subject to qualification. The reason why the Chinese maritime customs loans are being paid while other Chinese loans are not lies not in the security itself, but in the manner of collection. Unlike the likin and salt gabelle hypothecated revenues of China, the maritime customs have been collected and administered since 1854 by a board of three foreign inspectors (British, French and American).

Again, the apparent priority of the Brazilian funding loans must be qualified. The priority given these loans over other loans in the settlement plan of 1934 is not to be explained in terms of the government's desire to accord the bonds this rank because of their pledged revenue security. Other Brazilian government bonds similarly secured are given no preference in settlement. The presidential decree of February 5, 1934, explains this priority as follows:

> Grade 1. This grade will comprise the Funding Loans of the federal government, including the amounts funded and to be funded under the 1931 Funding Scheme. It will also include the liquidation of arrears under The Hague Award, which arrangement formed part of the 1931 Funding Scheme. The federal government recognizes the special character and importance of its Funding Loans and foreign exchange for the full service of such loans will be provided.[15]

This phantom security manifests its true nature not only when default occurs but also when sovereignties willfully divert pledged revenue from the promised purpose to more pressing needs. Colombia, in 1911, abrogated its arrangements regarding the collection and remittance of funds for loan service;[16] Guatemala, between 1903 and 1908, transferred the pledge of revenue on one loan to the security of another;[17] Mexico has even hypothecated the same revenues for the security of two different loans;[18] and

[14] This statement is based upon an investigation of complete and partial defaults of secured and unsecured issues for the period in question. To include even a summary of defaults, by nations, would enlarge the article beyond an acceptable length.

[15] *Corporation of Foreign Bondholders, Sixtieth Annual Report* (London, published by the Council, 1933), p. 110.

[16] *Ibid.*, p. 155.

[17] *Ibid.*, pp. 279-280.

[18] *Standard Bond Descriptions*, vol. 8, no. 767, July 7, 1934, sec. 12, Card no. FLM, M19.

China has diverted the proceeds from the salt gabelle and has abolished the security offered by likin hypothecations.[19]

In the event of an abrogation of the bond contract the investor has no legal recourse to force the payment of what is due to him by a foreign government. It is a well established principle of international law that if a defaulting nation refuses to become a party to a suit, it cannot be compelled to do so.[20] Legally, therefore, the bondholder has no course of action to enforce the contract with a nation not wishing to observe the terms of the agreement. The issue of government bonds, like the issue of paper money, is a sovereign act and is not subject to judicial review.[21]

Cases are comparatively rare where governments attempt by armed intervention to force collections from another nation when contractual agreements have been broken. The blockade of Venezuela by England, Germany, and Italy in 1902 and 1903, and the seizure of the customs houses in the Dominican Republic in 1901, and of Haiti in 1915-16 by the United States are instances where this method has been used with success. Probably the most futile of all attempts of armed intervention, undertaken on the pretext of guarding financial interests, was the assault upon Mexico in 1862 by Napoleon the Third.

Likewise, diplomatic intervention has proved unsatisfactory. Honduras stood off the British government from 1873 to 1926. Portugal ignored a protest by the German Empire in 1892. The Soviets continue to show small interest in the repudiated imperial and interim governmental obligations of Russia.

Armed or diplomatic intervention cannot be considered as effective tactics of collection. With very few exceptions sovereignties jealously guard their credit. Failure to pay interest or principal usually implies an economic maladjustment which cannot be remedied or alleviated by collection through external force. That such attempts to force the terms of the contract are futile and obsolete procedures are indicated by the modern methods of collective action taken by bondholders. In England, the Corporation of Foreign Bondholders, and in the United States, the Foreign Bondholders' Protective Council, attempt by means of dealings with the defaulting nations to work out plans as best they can to protect the interests of the bondholders.

IV

The disappointing experience of investors who have depended upon a pledge of revenue has been accompanied by equally discouraging financial complications in the economically undeveloped nations using this device.

[19] *Corporation of Foreign Bondholders, op. cit.*, p. 14.

[20] For a recent statement on this point see the decision of Justice Frankenthaler of the Appellate Division of the New York Supreme Court, discussed in *Standard Bond Descriptions*, vol. 8, no. 767, July 7, 1934, sec. 12, Card no. FLM, M19.

[21] *American Journal of International Law* (Washington, D.C.), vol. 6, p. 660.

This is due, largely, to the fact that in times of economic adversity pledged revenues may prove to be an unstable source of income. Particularly is this true in the case of customs duties, the most common type of revenue hypothecation. With a decline in foreign trade, customs duties decline accordingly. In Costa Rica the receipts (in colones) in 1929 amounted to 24,715,828; in 1930, 16,964,048; in 1931, 15,767,500. An episode from the recent financial history of Roumania furnishes another example of the instability of pledged revenue. The Roumanian 4 per cent External Loan of 1922, a comparatively small issue, is described by Moody's as follows: "A direct obligation of the Roumanian government, its services enjoying priority over all other external or internal indebtedness, present or future." The service of this loan is a first charge against the general revenues of the State and is, in addition, a first special charge against the gross proceeds of export taxes. The bond contract has become a mere paper promise, because the holders have fared no better than the beneficiaries of other fiscal mortgages; but it is interesting to examine the receipts of the secondary security, inasmuch as it furnishes an excellent example of how unreliable pledged revenue receipts can be. From a yield of £2,573,160 in 1926 the revenue declined to £184,587 in 1931, at which time the government abolished this secondary security.

The presence or absence of adequate pledged revenues, to cover interest and amortization charges, are of minor importance when these revenues are under the control of the sovereignty offering the pledge. A specific security offered by a government, in support of its obligations, is of dubious value without a stability of trade and an export balance large enough to afford a surplus sufficient to meet the interest and amortization charges. If the nation mortgaging its revenues lacks a diversification and a stability of exports, and is forced by economic necessity to depend upon the export of raw materials, changeable economic conditions may make the exportable surplus an ephemeral phenomenon. If the national staple sells in an openly competitive market, it has a highly sensitive price and is the first to fall in a period of depression. Guatemala, with 80 per cent of her total export value in coffee, suffered a decline in exports from $34,000,000 in 1927 to $9,300,000 in 1933. The resumption of sinking-fund service in Guatemala's case is dependent largely on an improvement in the coffee market. The recent financial histories of Costa Rica, Dominican Republic, and El Salvador likewise offer examples wherein the demoralization of the world market for raw materials presents obstacles to the regular payment of the debt service—obstacles which no bond indenture can overcome.

Ranking equally in importance with depression causes leading to the decline in a surplus of exports is the transitory significance of the principal export product. Chile offers an excellent illustration. The value of exports declined from $297,000,000 in 1920, to $165,000,000 in 1921, a drop

of 45 per cent.[22] The deflation of that year, as that of 10 years later, affected the values of raw materials[23] earlier and to a greater extent than it influenced the price of finished goods. Because copper and nitrates comprise 80 per cent of the value of Chilean commodities sold abroad, this early deflation is especially drastic in its effects on the balance of payments. As a consequence of the lag in the decline in the price of manufactured goods, imports did not fall off as rapidly as exports. They declined in 1920 only to the extent of 15 per cent as compared with the 45 per cent decline in export values. Similarly, 10 years later, the sales of Chilean goods abroad decreased by 40 per cent, although imports remained relatively high, only 12 per cent below the 1929 figure.[24] By 1932 exports had all but vanished, 90 per cent of their value having disappeared. Although imports had been reduced drastically (having fallen by 92 per cent), the resultant favorable balance of trade, $10,800,000, may be contrasted with the $30,000,000 required to pay 6 per cent interest on the $493,000,000 of the external debt.[25] Other factors in the decline of Chilean export trade were the development of synthetic processes for producing nitrates and the ever increasing importance of copper scrap in competition with the Chilean ores as raw material for refining industries. In the United States, by 1933, copper scrap had displaced ore as a raw material for the refining industry to the extent of 42½ per cent.[26]

A similar loss of export trade may be noted in the case of Mexico. In 1931 the petroleum production scarcely exceeded the amount produced 15 years earlier. Again, the debacle of Brazilian credit in 1913 was due in part to a loss of the raw rubber market because of the strong competition of plantation rubber from the East Indies and the Straits Settlements. Seventeen years later the financial embarrassment of Brazil may be attributed to a comparable collapse in the price of coffee. This condition was aggravated by the increasing competition afforded by coffee raised in Colombia and Central America.

Lacking a favorable balance of trade, a country is loath to draw upon its gold reserves or to sacrifice its exchange held abroad. To do so would serve only to aggravate its unsatisfactory position and would encourage national insolvency. Despite an adequacy of pledged revenues, if a government believes it is sacrificing its gold reserves beyond reason, it will refuse to draw upon them to meet external debt obligations. This may be illustrated by the Roumanian policy. In a decree of August 12, 1933, the

[22] *Sixtieth Annual Report of the Council of the Corporation of Foreign Bondholders* (1933), p. 144.

[23] *Standard Bond Descriptions*, vol. 7, no. 678, August 23, 1933, sec. 3, FLM C21.

[24] *Ibid.*

[25] *Ibid.*

[26] O. E. Kiessling, *United States Minerals Yearbook for 1934* (U. S. Dept. of Interior, Bureau of Mines, U. S. Printing Office, Washington, D.C., 1934), p. 70.

transfer of funds to foreign fiscal agents was suspended. However, the gold and gold exchange reserves of the National Bank of Roumania remain unimpaired; in fact they have shown a steady increase from 1932 through 1934. One can only conclude that the Roumanian financial administration is unwilling, in the face of a diminished export surplus, to sacrifice its gold reserves.

In an attempt to overcome the difficulties of meeting the service on external indebtedness some nations have resorted to the expedient of gold embargoes or foreign exchange controls. Foreign exchange control as related to hypothecated revenues may be considered as a futile attempt to translate the proceeds of pledged revenues into funds in the hands of foreign fiscal agents. Such measures are mere palliatives which may for a time soothe economic ills but in no sense cure them.[27]

Thus, it may be inexpedient, if not impossible, to translate the proceeds of pledged revenues to foreign creditors. Injury to the credit of a nation, in such a predicament, may not be limited to the impairment of its rating due to default causes. It is quite possible that the use of pledged revenues may make the whole fiscal system inflexible. Venezuela's experience offers an extreme case. After 1914, as the cost of government rose, its revenues declined.[28] The financial administrators decided to shift their main budgetary reliance to excise taxation. If one may judge from the experience of Venezuela, the liberation from dependence on customs duties is a long and arduous process. This nation has had such bitter experience with external creditors that the tax system was finally cleared of external lien in 1930.[29] Venezuela found that hypothecation of governmental revenues is uneconomic because in effect it "freezes" the tax system into the pattern it had at the time the loan was issued.

In order better to illustrate how the hypothecation of revenues congeals the tax system of a country, Table IV is submitted, offering a comparison of the principal sources of revenue for several countries in varying stages of economic development. The heavy reliance of economically primitive nations on customs collections may be contrasted with the relatively unimportant place these revenues have in the fiscal systems of the nations

[27] "By allowing the maladjustment to continue the ultimate establishment of equilibrium (of the internal price level of the debtor country with the external price level) will probably be rendered just so much more difficult. Control of foreign exchange by Australia in 1930 and 1931 allowed the Australian price level to remain over 25 per cent out of line with the level in England which was itself relatively high." *American Economic Review*, vol. 22, no. 4, December, 1932, p. 597, "Exchange Control," by Charles R. Whittlesey.

[28] Consular and customs collections fell from 56,000,000 bolivars in 1912 to 35,000,000 in 1915, and finally to 21,000,000 in 1918. *Venezuela, a Commercial and Industrial Handbook*, P. L. Bell (U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, Washington, 1922), p. 38.

[29] *Sixtieth Annual Report of the Council of the Corporation of Foreign Bondholders* (1933), p. 505.

more advanced commercially. Whereas Colombia, Costa Rica, and Honduras raise at least half of all revenue from this source, the United States, Czechoslovakia and Poland raise less than ten per cent.

TABLE IV.—A COMPARISON OF THE BUDGETARY IMPORTANCE OF CUSTOMS DUTIES AND OTHER PRINCIPAL SOURCES OF REVENUE TO NATIONS IN VARYING STAGES OF ECONOMIC DEVELOPMENT IN PERCENTAGES OF TOTAL ORDINARY REVENUE

Type of tax, or source of revenue	*United States of America*[a] *1934–35*	*Czechoslovakia*[b] *1934*	*Poland*[c] *(Apr. to Sept., 1934)*	*Colombia*[d] *1933*	*Costa Rica*[e] *1933*	*Honduras*[f] *1933–34*
Customs duties and other levies on international trade.......	9	6⅓	5	50	58½	63
Fiscal monopoly revenues.....	—	17	41	10	13	12½
Other commodity taxation.....	60	43	10	12½	4½	—
Income taxes ("direct" taxes)..	26	18	20	4¼	4	—
State enterprises, net income from....................	—	—	—	6¼	11	21
Other sources, ordinary revenue	5	15⅔	24	17	9	3½
TOTALS................	100	100	100	100	100	100

[a] New York *Times*, May 21, 1935, p. 31.

[b] *Monthly Bulletin of the National Bank of Czechoslovakia* (vol. 109, no. 3, March, 1935), p. 194.

[c] *Statistical Bulletin of the Ministry of Finance*, p. 9 (Warsaw, Poland, no. 7–9, July to September, 1934).

[d] *Revista del Banco de la Republica* (Bogata, Colombia, vol. 7, no. 86, December, 1934), p. 436.

[e] *Sixtieth Annual Report of the Council of the Corporation of Foreign Bondholders* (1933), p. 185.

[f] *Ibid.*, p. 295.

The unreliability of customs duties as a source of revenue can be illustrated by the war-time experience of Venezuela;[30] this major source of revenue fluctuated as follows:

Year	*Index number of customs collections (per cent)*	*Year*	*Index number of customs collections (per cent)*
1911	100	1916	88
1912	116	1917	69
1913	87	1918	40
1914	76	1919	70
1915	68	1920	128

A heavy dependence upon customs duties by economically primitive nations carries with it a danger. Either a decline in exports or a rise in the customs rates will usually result in a decrease in the governmental receipts. Since the countries commonly using this source of income are restricted

[30] *Venezuela, a Commercial and Industrial Handbook, op. cit.*, p. 38.

by economic circumstances to relatively few sources of revenue, a hypothecation of the returns from this tax makes the fiscal system of the country inflexible.[31]

The income tax may be offered as an illustration of one source of revenue which cannot be drawn upon by a country in a comparatively retarded stage of economic development. The nations least advanced in economic development which have access to the capital markets are characterized by a population largely self-sufficient. In such countries the income tax is not profitable. The recent efforts to broaden the tax base by the establishment of an income tax as has been attempted in Peru and Mexico will undoubtedly prove to be impracticable. Similarly, the sales tax and the excise tax cannot, with success, be used in nations economically undeveloped. Nations further developed find these taxes economical to collect and highly

[31] The effect of an import duty on the finances of Panama was included in the testimony of Mr. Herbert D. Brown, appearing before the United States Senate Committee on Finance, January 27, 1932. That part of the testimony relating to the point in question is as follows:

"The Chairman. And the loan, in your opinion, after the investigation you made—was it a sound loan?

"Mr. Brown. The loan seemed to be amply secured by various revenues which were pledged to the bank to meet the interest and principal.

"I might say, howver, that it seemed to us that perhaps a smaller loan would have answered the purpose if the survey had been made in advance of the loan and the Panama government had been shown how they might curtail their expenses. One of the things that made me sorry that all of our best points were eliminated from the report was that we showed the Panama government how they could balance their budget without making any subsequent loans. We felt very strongly that they were up to the hilt in loans after the $12,000,000 had been given them. The only free asset that I recall that they had at that time was the parcels-post revenue. And the only way that an additional loan could be secured was by pledging that revenue. We felt that if the Panama government could be given a report of the type that we provide it would show them how to balance their budget, and in a short time have a considerable surplus on hand. It was the deletion of the things that were designed to help them that disappointed me most.

"I might say that one of the points that we emphasized most was the order that Panama might become a more popular place for tourists to buy the things that tourists buy. If you have ever been to Panama—and of course you have—you know that the Panamanians charge that the commissaries run by the Panama Canal are in active competition with the Panamanian stores.

"The goods that are bought for the commissaries pay no duty. Many persons who go through the canal have friends or relatives buy things for them at the commissary. This is very much resented by the Panamanian merchants. So we pointed out that if the 15 per cent duty on goods coming into the Panamanian Republic could be reduced it would enable the merchants of Panama to compete more successfully with the commissaries and thus eliminate one of the sore spots between the Panamanian government and the canal administration.

"The Chairman. Well, if there was any duty collected at all—and Panama must collect duty to pay her public debts—there would be a disadvantage no matter what it was, whether it was 15 per cent or whether it was 25 per cent.

"Mr. Brown. But we felt that the better way would be for the Panamanian government to collect more direct taxes from the people and reduce the import duties, which were frequently evaded, and thus attract the tourist trade more than they did." *Sale of Foreign Bonds or Securities in the United States,* Hearings before the Committee on Finance, U. S. Senate, 72nd Congress, Pursuant to Senate Resolution no. 19 (Washington, Government Printing Office, 1932), part 4, p. 1941.

productive. Because individual interdependence is common, necessitating the exchange of services and commodities in terms of money or bank credit, sales volume per capita is high; thus the base for the tax is much broader than would be the case in an undeveloped region.

Table IV shows the same grouping of nations for customs duties as for the income tax and direct tax.[32] The United States, Czechoslovakia, and Poland derive over 15 per cent of their revenue from the income tax, but Colombia, Costa Rica, and Honduras raise less than 5 per cent from this source.

The countries are not so sharply classified in the case of fiscal monopoly revenues. Nations in all stages of economic growth use the fiscal monopoly device, although it is not found in all economically undeveloped nations.[33] "Some of the fiscal monopolies found in the various countries are of long standing and their proceeds are regarded as minor but stable additions to other regular sources of governmental income. In other countries, however, the monopolies represent temporary expedients made necessary by the ever increasing revenue needs of hard pressed governments."[34]

The last source of revenue to be considered in Table IV is the income realized from state-owned properties. Such resources, although substantial, cannot be relied upon to support the external debt because adverse business conditions abroad may close the foreign market for the extractive product of the national mine or forest. It may be impossible for a nation to maintain a carefully balanced budget as long as its economic position is at the mercy of powerful forces playing upon its expenditures, not because of extravagance or careless budgetary procedure but because its affairs are peculiarly subject to the gyrations of external forces.

Honduras offers an illustration of a nation subject to the repercussions of dominant external forces. The 1933-34 budget[35] of this country shows expense accounts which may become much higher or lower, depending upon foreign price levels and the rates of exchange. Twenty-five per cent of total expenditures is for external debt service, 3½ per cent for foreign affairs, and 10 per cent is for war, marine, and aviation. To an indeterminate extent the expenditure for public works is beyond domestic control, because of the purchase of equipment abroad. The same is true of the military ex-

[32] "Direct taxes" as used in the United States analysis of revenue would include individual and corporate income tax, estates tax, gifts tax, taxes on corporate capital stock.

[33] The nations which used fiscal monopolies in 1931 were: Austria, Bulgaria, Czechoslovakia, Denmark, Finland, France, Greece, Hungary, India, Italy, Japan, Netherlands, Norway, Portugal, Roumania, Salvador, Spain, Switzerland, Yugoslavia. The following did not use fiscal monopolies in 1931: Australia, Belgium, Colombia, Guatemala, Great Britain and North Ireland, Germany, Haiti, Sweden, the United States of America, and Venezuela. Mark C. Mills and George W. Starr, *Readings in Public Finance and Taxation* (New York, Macmillan, 1932), p. 168.

[34] *Ibid.*, pp. 169-170.

[35] *Sixtieth Annual Report, Council of Corporation of Foreign Bondholders* (1933), p. 297.

penditures. It is probably conservative to conclude that at least one-third, and perhaps in some years as much as one-half, of the national expenditure is beyond domestic control.

V

The practice of pledging revenue for the security of government bonds has deceived both the investors and the issuing sovereignties. As a lure to investors, its importance cannot be denied; investment bankers have emphasized its significance and investors have accepted this warranty with the assurance that it offered protection. That this confidence has been misplaced is apparent from an examination of the defaults since 1931.

Governments have been so deluded by the ease of marketing issues supported by the hypothecation of revenue that they have been tempted to assume external obligations beyond the nations' ability to pay. Even though the mortgaged revenues may be adequate to cover the interest and amortization charges, it does not follow that a nation will possess foreign exchange sufficient to cover the interest and principal payable abroad. A thorough analysis of ability to pay must relate the exportable surplus and the per capita indebtedness to the economic stage of the nation in question.

Governmental difficulties arising from the practice of mortgaging revenues have not been limited to an inability to meet external debts. To mortgage the revenues of an economically undeveloped country and to pledge regularly a fixed amount of its income tends to make the fiscal system inflexible. This condition has been aggravated by the narrow tax base characteristic of an economically undeveloped country. Confronted with a curtailment in revenue and a "frozen" tax system, governments, as a matter of self-preservation, have diverted funds from the promised purpose to the more pressing need of alleviating internal financial difficulties. No bond indenture can prevent, under such conditions, a diversion of pledged revenues.

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THE ELASTICITY OF THE FEDERAL RESERVE NOTE

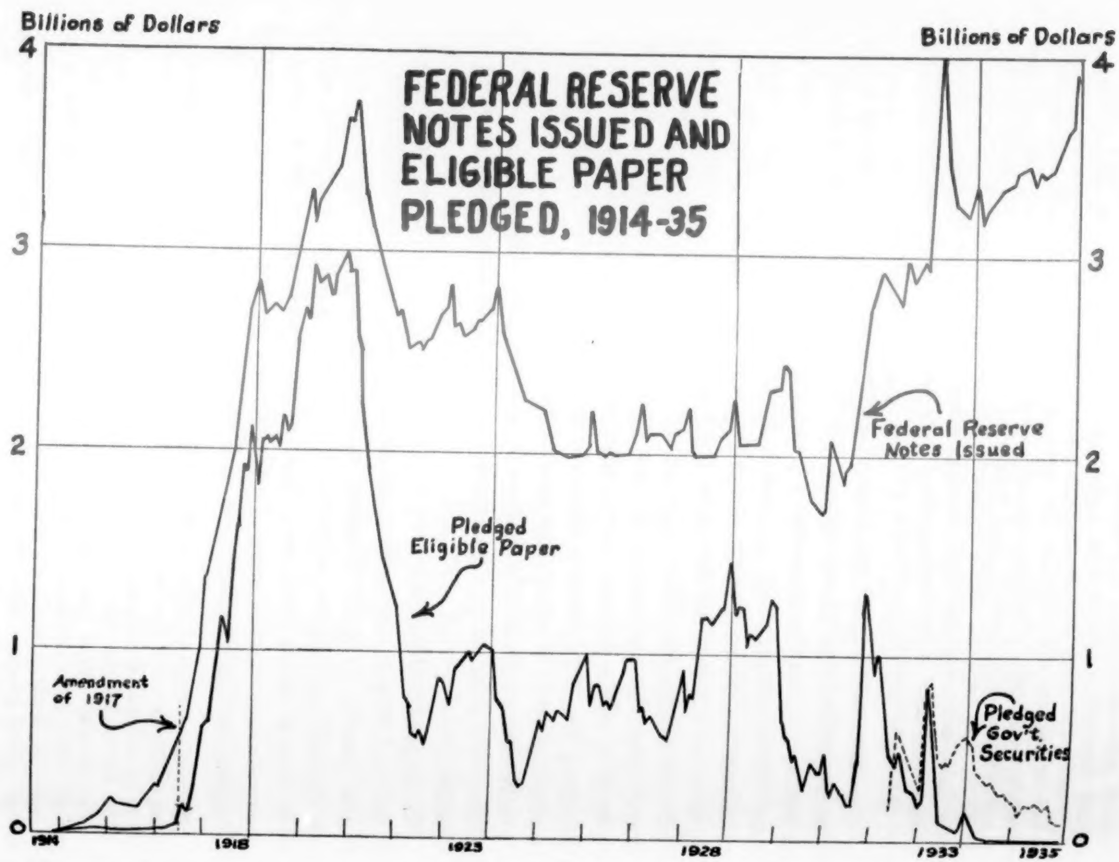
When the federal reserve system was established, elaborate precautions were taken to provide for the elasticity of the federal reserve note. The original plan of issue called for the use of rediscounted paper as collateral, and the process of issue and retirement was tenuously connected to member bank borrowing. The original plan has been almost entirely abandoned through statutory changes made in response to alterations in monetary and banking practices and structures. The tremendous growth of the gold stock has been of particular significance. The collateral requirements have been modified, and note issue has been divorced from member bank borrowing. The elasticity of the federal reserve note has not been impaired, which suggests that the correct explanation of note elasticity is to be found in the rôle which cash plays in the monetary system rather than in collateral requirements. Vestiges of the original plan of note issue remain and constitute a potential source of embarrassment to the monetary system.

One of the most significant features of the federal reserve system is the elastic character of the federal reserve note. When the system was established, the provision of an elastic currency was a major consideration as is shown by the title of the original act which reads "An Act to provide for the establishment of federal reserve banks, to furnish an elastic currency. . . ." The frequent currency panics under the national banking system had been a serious problem. Since the organization of the federal reserve system no currency panics have occurred.[1] In view of this achievement, the character of the elasticity of the federal reserve note should be examined, for this type of currency has supplied the elastic element in the currency system with minor exceptions.[2] What is most remarkable is that the federal reserve note has demonstrated its ability to expand and contract although the original devices which were adopted to secure elasticity have been either abandoned or nullified.

The original Federal Reserve act provided for a note issue which was to be secured 100 per cent with commercial paper and in addition by a 40 per cent reserve in gold. Member banks were to obtain notes by rediscounting customers' paper with their respective federal reserve banks, which would in turn obtain notes from the federal reserve agents by transfer to them of the rediscounted paper. Redemption in gold and additional security was assured by the establishment of a specific gold reserve for notes, this

[1] The banking crisis of 1933, while characterized by a huge increase in the volume of currency outstanding, did not force a suspension of note issue by the federal reserve banks prior to the national banking holiday.

[2] The federal reserve note has not been the exclusive form of currency in use, hence variations in other forms must be taken into account. Under the Pittman act (Act of April 23, 1918) silver certificates were replaced temporarily by federal reserve bank notes. Following the banking crisis of 1933, federal reserve bank notes were again issued, although without genuine cause. The national bank note has also exhibited some variation in volume, although without close relationship to the public demands for currency. This note is now in process of retirement. Recently the volume of silver certificates has increased in connection with the purchase of silver by the Treasury. None the less, the federal reserve note has been the only truly elastic form, and the variations in its volume must be understood to be the composite result of changes in the public demand for currency and of changes in the volume of other forms.


FEDERAL RESERVE NOTES ISSUED AND ELIGIBLE PAPER PLEDGED, 1914-35
Billions of Dollars
Billions of Dollars
Amendment of 1917
Pledged Eligible Paper
Federal Reserve Notes Issued
Pledged Gov't. Securities
1914
1918
1923
1928
1933
1935
0
1
2
3
4

to be held by the federal reserve banks directly. In order to prevent the volume of notes from becoming excessive, elaborate provisions respecting retirement were included in the Act. The more important of these were that member bank rediscounts were to extend for periods not exceeding 90 days, that the notes should be of rather large denominations, that one federal reserve bank might not pay out another's federal reserve notes except under penalty, that federal reserve notes were to be cancelled and retired upon return to the bank of issue, and that member banks might repay indebtedness but not build up balances by sending in federal reserve notes. The process of issue and retirement was tenuously connected to member bank rediscounting. Had there been strict adherence to these provisions, there is no doubt that the federal reserve note would have been elastic and that the use of commercial paper as backing would have explained the reason for its being so.

While the language of the original Act appears to indicate that the note was to be covered entirely by eligible paper, provisions were included in the Act which defeated this purpose. The federal reserve agents were authorized to issue federal reserve notes to federal reserve banks only upon transfer of eligible paper, which would be provided by the rediscounting operations of member banks seeking currency. Once having obtained the notes, the member banks were allowed to discharge their indebtedness by sending in lawful money or gold as well as federal reserve notes. As is well known, eligible paper came very soon to be regarded as a means of obtaining notes rather than as collateral for notes. Many banks made use of the same eligible paper repeatedly in obtaining notes, discharging their indebtedness by sending in gold or lawful money. This practice was assisted by the establishment of the federal reserve banks as currency depots to which member banks sent worn and soiled currency in exchange for fresh bills.

In order to meet the demands made upon them, the federal reserve banks shifted gold and lawful money to their agents to release eligible paper, which they promptly used to obtain new federal reserve notes. The employment of eligible paper to obtain notes rather than to secure note issue led to the securing of the federal reserve notes in large part by gold rather than eligible paper. As may be seen from the accompanying chart, the federal reserve note was never secured 100 per cent by commercial paper except at the very outset.[8] There is no doubt that the replacement of eligible paper by gold and lawful money was authorized by statute, but it defeated the principle that elasticity should be achieved through backing the note issue with commercial paper.

The amendment of September 7, 1916, modified the collateral requirements to the extent of authorizing the use of paper purchased in the open

[8] This chart was constructed by using the end of month figures for federal reserve notes

market as note collateral. In the following year, in connection with a revision of the entire plan of note issue, member banks' own 15-day promissory notes were admitted as collateral. This amendment made the federal reserve agents the custodians of all collateral for federal reserve notes, and included the former specific gold reserve in the total.[4] The amendment also authorized the use of gold certificates in the same manner as gold. The note became a 100 per cent secured issue, whereas it had originally been secured 140 per cent. The amendments of 1916 and 1917 represent an almost complete departure from the original theory of elasticity. Since the outset, the federal reserve note has been backed by a miscellany of specific collateral, only part of which has consisted of rediscounted customers' paper. The two amendments mentioned severed the connection between member bank indebtedness and note issue.

An element of the original theory was retained in that the non-gold collateral was limited to short maturity paper and in that member banks might continue to rediscount to obtain notes. Eligible paper became a means of securing elasticity for a portion of the note circulation rather than for the entire volume. The provision adopted in 1917 that at least 40 per cent of the collateral must consist of gold and gold certificates has permitted eligible paper to be used as collateral without close correspondence between elasticity and commercial paper backing. The federal reserve banks have made a practice of pledging their entire holdings of eligible paper; but, as may be seen from the chart, note issue has not correlated with pledged eligible paper. In explaining the lack of correlation, one need only recall that member bank borrowing and open market purchases of acceptances, which supply all non-gold note collateral paper, are not carried on for the exclusive purpose of supplying member banks with currency.

The dual collateral feature has provided sufficient collateral to allow the demand for notes to be met at all times without letting the gold coverage fall below the 40 per cent minimum. In 1920, a combination of increased note circulation and gold outflow almost reduced the note coverage to the

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issued to federal reserve banks and for eligible paper pledged with federal reserve agents to secure circulation. Because some notes are always held by federal reserve banks and some by the Treasury, the amount in circulation is somewhat less than the amounts shown by the uppermost line of the chart. Neither is the distance between the line representing notes issued and the line representing pledged eligible paper to be interpreted as measuring exactly the amount of gold held against notes, for as frequently happens, federal reserve agents hold amounts of eligible paper in excess of the dollar value of that actually pledged. The line representing eligible paper is to be considered as showing the maximum amount of that type of collateral. Pledged government securities are shown for the period during which they have been authorized.

[4] Act of June 21, 1917. Except for the first mentioned feature, the amendment was suggested by the Federal Reserve Board as early as 1915. See the *Annual Report of the Federal Reserve Board for 1915*, pp. 21-22.

minimum, but the crisis was passed without difficulty. Again, in 1931, a coincidence of note increase and gold outflow was observed, and this led to the passage of an emergency measure early the next year, under the terms of which direct government obligations have been used as note backing in place of eligible paper.[5] Strangely enough, it was a shortage of eligible paper which caused embarrassment in 1931 and not a decline in the gold coverage.[6]

The use of government securities to secure note issue is associated in the United States with the inelastic national bank note. As may readily be seen from the chart, only a small volume of government securities has been used and without any effect toward inelasticity. This experience is further evidence that the nature of the collateral behind federal reserve notes has little to do with their elasticity.

A grave mistake would be made if the entire volume of federal reserve notes was referred to as elastic, for such is not the case. Elasticity applies only to that portion of the total which is in excess of the permanently circulating volume. A definite figure cannot be given for the permanent circulation although it is probably close to $3,000,000,000.[7] The elastic portion of the issue is measured roughly by the seasonal fluctuation and by the cyclical variation, which have been approximately $500,000,000 and $1,000,000,000, respectively.

Although the growth of the monetary gold stock of the United States has been sufficient to provide more than the bare minimum of gold coverage for federal reserve notes, the volume of the issue is not closely related to changes in gold holdings. If gold flows in, it may be used to secure federal reserve circulation. On the other hand, if gold flows out, note circulation need not be reduced. Gold may be supplied by the federal reserve banks from their free gold, from their reserves against deposits, or from the note reserve by substituting non-gold collateral, provided that the coverage exceeds 40 per cent. In short, the federal reserve note is elastic quite inde-

[5] Act of February 27, 1932, popularly known as the Glass-Steagall act. Originally limited to one year, this provision was extended for an additional year by the Act of February 3, 1933. By the Act of March 6, 1934, the expiration date was extended to March 3, 1935, or until the expiration of an additional period fixed by the President not to exceed two years. By proclamation on February 14, 1935, the President extended the provision for the full two-year period.

[6] The gold and gold certificates pledged to secure note issue on December 31, 1931, exceeded 70 per cent of the notes issued.

[7] At the seasonal low point of 1930, circulation amounted to $1,349,000,000 (October 31, 1930), which was less than at any time since 1917. The retirement of gold certificates, of which there were $1,000,000,000 in circulation in 1930, has, of course, required an increase of federal reserve notes. The retirement of national bank notes was undertaken in 1935 and, although silver certificates have been increased under terms of the Silver Purchase act, this has also resulted in an increase of federal reserve notes. The above figure is not excessive if these factors are taken into account.

pendently of the movement of gold and yet has a normally high gold coverage.[8]

The carefully laid plans for an elastic currency, which were embodied in the Federal Reserve act, have been repudiated. What remains of the original devices in the nature of collateral requirements does not account for the expansion and contraction in the volume of the issue. Moreover, these vestiges of the original plan threaten to raise serious problems in the future.

The elasticity of the federal reserve note must be considered in relation to the function which paper money plays in the monetary system of the United States rather than in terms of the collateral which has been employed to back it. The United States is a deposit-using country primarily, and paper money is employed only where the use of checks is not convenient. Notes get into circulation by the withdrawal of deposits. They return to the banks through being deposited by merchants and others who receive payment in cash. Under these conditions the function of note issue is passive.[9] In spite of a general recognition of this truth, the federal reserve note has been hedged about with elaborate collateral requirements, apparently on the theory that the primary objective of monetary control is regulation of the volume of the note issue. Fortunately, events have so shaped themselves in the experience of the United States that the federal reserve banks have not been obliged to conduct their operations with view to restraining the demands of the member banks for notes.[10] The desirability of retaining the present collateral requirements for federal reserve notes is open to question. With approximately $3,000,000,000 of these notes in permanent circulation, a large portion of the gold holdings of the federal reserve banks must be used as note collateral.

The expedient adopted in 1932—namely, of using government securities in place of eligible paper—is not a satisfactory solution, for it implies that the federal reserve banks must hold a rather large volume of government securities permanently or stand ready to purchase them as the need for note collateral arises. The use of this device requires that open market policy be determined by considerations of the coverage for note issue.

Neither does the use of eligible paper afford a means of escape. The use of purchased acceptances is open to the same objection as that made against the use of government securities. If paper tendered by member banks in

[8] Since January 31, 1934, gold certificates rather than gold have been used exclusively, because the Gold Reserve act of 1934 transferred all gold to the Treasury. Inflows or outflows of gold are reflected in changes in the amount of gold certificates held by federal reserve banks.

[9] *Cf.* L. B. Currie, *The Supply and Control of Money in the United States* (Cambridge, Harvard University Press, 1934), pp. 110-14.

[10] The crisis of 1920 may constitute an exception, although as S. E. Harris has shown, the Federal Reserve Board held to the view that the demand for notes was a result of high prices and active trade. *Twenty Years of Federal Reserve Policy* (Cambridge, Harvard University Press, 1933), vol. i, p. 401 and pp. 410-11.

connection with borrowings is relied upon, again federal reserve policy is made subservient to collateralization of notes. To illustrate: if an outflow of gold occurs when there are no excess reserves and there is no free gold, either member banks must contract their deposits in multiple fashion or gold must be drawn from the note reserve to offset the loss. If the latter is to be done, other collateral must be substituted for gold or the note issue must be reduced.

While these considerations appear to be of little immediate significance because of the present volume of excess reserves, a gold outflow of magnitude comparable to recent inflows would make them immediate issues.[11]

As long as member banks have excess reserves, an outflow of gold can take place without forcing them to borrow. Those member banks which furnish the gold by drawing down their balances with federal reserve banks may utilize their own excess reserves for this purpose, or in the event that they themselves do not hold excess reserves, they may obtain balances through the federal funds market. Assuming that there are no excess reserves and that the federal reserve banks do not supply member banks with reserves by open market operations, an outflow of gold will result in an increase of member bank indebtedness. Until recently, member bank borrowings automatically supplied federal reserve banks with paper which could be used as note collateral. Recent changes in banking legislation have created a new class of paper.[12] An increase in member bank indebtedness will no longer necessarily provide federal reserve banks with note collateral. To this must be added the possible effects of changing the required reserves of member banks. Other things being equal, raising reserve requirements will tend to reduce excess reserves and force member banks into debt, and lowering will tend to do the opposite. If gold were to flow out and member bank reserves were reduced at the same time, no member bank borrowing would result on either class of paper.

An attempt was made to forestall the problems envisioned in the preceding paragraphs when the bill, which became the Banking act of 1935,

[11] There seems to be reason to look for a reversal of the direction of gold movements at some time in the next few years. There is doubt as to whether or not the federal reserve banks would be affected because of the possibility that gold might be furnished from the Treasury's stabilization fund. Gold exports might also be prohibited by the Secretary of the Treasury. What action the Treasury would take in the event of a gold outflow of large magnitude is unknown. It is assumed here that the federal reserve banks would furnish gold by redemption of a portion of their gold certificate holdings.

[12] The Banking act of 1935, title II, section 204, provides that member banks may borrow on their own notes, secured to the satisfaction of their federal reserve banks for periods not exceeding four months, at a rate one-half of one per cent above the highest prevailing discount rate. This section replaces section 10(b) of the Federal Reserve act, which was added by the Glass-Steagall act of 1932 and amended by the Emergency Banking act of 1933. The new section removes the requirement that the borrowing must be for emergency purposes. It should be noted that only paper originating under section 13 of the Federal Reserve act can serve as note collateral.

was drafted. A section was included in the bill which would have made the federal reserve note a currency secured by a specific gold certificate reserve of 40 per cent and by the general assets of the federal reserve banks.[13] This provision was eliminated from the bill before it became law. The proposition to this section is not to be interpreted as an unwillingness to discard the commercial paper elasticity theory, but rather as an expression of the fear that member banks might endeavor to convert all forms of assets into notes by borrowing under the provisions of Section 10(b). As the Act now stands member banks may borrow and demand notes. The federal reserve banks have the responsibility of providing note collateral.

At some time in the future, the present collateral requirements will have to be revised or the problem of note issue may become of dominant importance in shaping federal reserve policy. There would seem to be little reason to allow note issue to assume that rôle in view of the minor importance of paper money in the monetary system. The present collateral requirements do not provide elasticity, but they may provide embarrassment to those who are vested with the responsibility of formulating monetary policy.

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[13] See S. 1715, 74th Congress, 1st session, pp. 46-88.

THE BURDEN OF DIRECT TAXES AS PAID BY INCOME CLASSES[1]

Adequate consideration of the current enormous tax burden upon the various incomes requires analysis of the rate of progression of the complete system of federal and other taxes, of tax shifting, and of the ultimate effects of taxation. Disregarding theoretical reflections on incidence, the tax burden may first be analyzed by a set of ratios, one for each income class, showing as a share of net income, the reported tax liability for federal income taxes on individuals and corporations, and state and local taxes. In this calculation, the corporation tax paid in each class is estimated according to the dividends received. An estate tax ratio was calculated by applying current estate tax rates to an estimated net estate for each class and converting this estate tax to an annual basis by an insurance premium on a policy covering the prospective tax. Addition of the ratios for federal personal and corporation income tax, and state and local tax, yields a "combined" ratio, estate taxes being omitted because of the less trustworthy character of the estimates. The combined figures reveal steep and systematic progression for individual incomes ranging from $5,000 to $500,000; for incomes of $500,000 and over there are noticeable irregularities. Steeper progression of the combined ratios for incomes up to $250,000 as compared with the ratios for the separate types of taxes is explained by the tendency to regression in the state and local taxes and the almost horizontal movement of the corporate income tax for the very large incomes.

The increasing use of direct taxation, as exemplified in the recently enacted federal tax law of 1935, and the formidable total of the revenue which must be raised, emphasize the necessity for a careful consideration of the tax burden upon the various incomes. One theory developed by economic analysis holds that the tax burden should be distributed according to the money value of taxable capacity—the ability theory. As this doctrine developed, property gave way to income as the standard of ability; for, with the elaboration and refinements in the forms of holding property, the various classes of property rights came to represent numerous and varying combinations of the elements of risk, management, and investment. Consequently money valuations of such rights give no clue to the real divergences among them. Increasing emphasis on the ability theory had been accompanied by a belief that the decrease in the marginal utility of income to the individual, as the income increases, resulted in a more rapid increase in taxable capacity than in incomes. And the equity of the tax system for the entire society depends not so much upon the fluctuation in the amount of tax paid between adjacent income groups as upon the rate of progression of the complete system. It is also true that the tax burden is modified by the extent to which the tax is "shifted," and by the ultimate effects of taxation, as well as of government expenditure, upon society as a whole —that is, the influence on the standard of living, saving, investment, and enterprise of all classes. But this study is limited to the empirical application of the first "measure" of the burden, the ratio of the taxes as paid, to the statutory net income of the individual.

A statistical estimation of the burden, as determined by reported tax

[1] This investigation was suggested by Professor W. L. Crum, who advised and assisted the author in every step of the analysis.

liability for federal personal and corporation income, and state and local taxes, in relation to statutory net income is set forth here.[2] The scope of the investigation was necessarily limited to those income classes covered by the official data.[3] The analysis is also limited to 1924, 1927-1933; for the Bureau of Internal Revenue has not compiled tabulations for state and local taxes[4] according to incomes before 1924 or for 1925 and 1926, and the last available data pertaining to tax returns are for 1933.

Estate taxes have likewise been allocated according to income classes; but,

[2] An alternative method of studying the rate of progression would have applied to hypothetical cases the schedules contained in the tax laws. The amount of computation is practically the same, for the work involved in applying state and local tax rates to "hypothetical" income classes in each year, if it could be done, would be excessive. There are other qualifications, moreover, which indicate the desirability of an empirical method rather than one by rule of thumb. The alternative method would, in a sense, hold constant the composition of income, and the varying composition which exists in reality influences the amount of taxes paid. For example, only the surtax rate is paid on dividends, and the amount of dividend income is a partial determinant of tax liability (this amount fluctuates from year to year for any one class as well as from class to class in any one year). Tax credits (see subsequent discussion) also modify the amount of tax liability and vary with time for a given income class, as well as among the different income groups in a given year.

[3] The Bureau of Internal Revenue Report, *Statistics of Income,* has tabulated data for income classes from $1,000 to $5,000,000-and-over and in some cases for a class defined by "under $1,000." The data for individual tax returns with net income under $5,000 represent estimates based on samples of such returns, and the classes below $5,000 have been eliminated because the sample seemed not sufficiently representative to yield precise information.

[4] State and local taxes are reported in *Statistics of Income* (for example, see page 16, 1932) under "Taxes Other than Federal." "The amounts are shown separately as reported in business deductions in Schedule A, 'Income from Business or Profession,' and in deductions from total income. Taxes paid other than federal income taxes are reported under 'Deductions' in the individual income tax return (item 14 on form 1040) in accordance with the following instructions: Enter as item 14 personal taxes and taxes paid on property not used in your business or profession, not including those assessed against local benefits of a kind tending to increase the value of the property assessed. Do not include federal income taxes, taxes imposed upon your interest as shareholder of a corporation which are paid by the corporation without reimbursement from you nor income taxes claimed as a credit in item 54." (Item 54 is income tax paid to a foreign country or United States possession.)

Item 12, Schedule A, does not "include federal income taxes, taxes assessed against local benefits of a kind tending to increase the value of property, nor taxes imposed upon sales by manufacturers." Amounts tabulated do not include taxes reported on form 1040F, "Schedule of Farm Income and Expenses." (*Ibid.*)

The meaning of the category "state and local taxes" is more clearly indicated in the *United States Internal Revenue Regulations,* for example see Regulations 77 relating to the Revenue act of 1932, p. 44. "Special assessments are not deductible, even though an incidental benefit may inure to the public welfare. The taxes deductible are those levied for the general public welfare by the proper taxing authorities at a like rate against all property in the territory over which such authority has jurisdiction. Assessments under the statutes of California relating to irrigation and of Iowa relating to drainage, and under certain statutes of Tennessee relating to levees are so limited that the amounts paid thereunder are not deductible as taxes. The above statements are subject to the exception that in so far as assessments against local benefits are made for the purpose of maintenance or repair or for the purpose of meeting interest charges with respect to such benefits, they are deductible. In such cases the burden is on the taxpayer to show the

in this case, the estimate is based upon the application of estate tax rates to the capitalized value of income reported in the individual income tax returns, rather than upon the taxes actually levied upon estates. The existing data do not permit a strictly empirical analysis; and the estimate as used is subject to serious limitations, as explained below. Direct provision has not been made for state inheritance, legacy, or succession taxes; but to the extent that a tax credit is allowed in the estate tax laws, the state inheritance tax and "death duties" are included.[5]

Explanation of Method

The entire analysis which follows rests upon the general assumption that the payer bears the taxes. Theoretical objections to this assumption are implied in the problem of the incidence of taxation, a topic which cannot be discussed adequately within the space here available. An important portion of state and local taxes consists of the general property tax which may have been capitalized and borne by preceding owners. There is no unanimity among authorities as to the incidence of a tax on net income, although it is quite generally held that such a tax, if not high enough to discourage saving or to cause a flight of capital, is not shifted. The more general the tax the less likely, of course, is shifting to take place. Thus, the general property tax may be shifted to a different extent and in a different manner from a tax on income; and the conclusions reached must be considered in the light of these differences.[6]

For every year and for each of the four types of taxes a set of ratios, one for every income class, was computed. For a given income class the denominator of the ratio is the aggregate amount of statutory net income reported for the year in question, and the numerator is the amount of taxes of the particular type paid by that class.[7] For example, for income

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allocation of the amounts assessed to the different purposes. If the allocation can not be made, none of the amounts so paid is deductible."

By exception in 1933, tabulated "Taxes Other than Federal" omitted portion reported in Schedule A. See note 4 to Table I.

[5] *Statistics of Income for 1932,* p. 50. Under the Revenue act of 1924 estates are allowed a tax credit, not exceeding 25 per cent of the total federal estate tax, for estate, inheritance, legacy, or succession taxes paid to any of the several states, territories, or the District of Columbia. Under the Revenue act of 1926 (likewise applicable to 1927 through 1931) the tax credit was increased to 80 per cent of the total federal estate tax. No credit for state inheritance taxes and "death duties" is allowable for the additional tax imposed by the Revenue act of 1932. Prior to the Revenue act of 1924 this tax credit was not permitted.

[6] Existing statistics do not permit a separation of the general property tax included in the state and local taxes, according to income classes. In spite of this objection, state and local taxes have been included in order to cover the ground as fully as possible.

[7] By exception, in the case of the estate tax, it was necessary to divide both sides of the ratio by the number of returns in each class (in other words the numerator represents the "annual" equivalent of the estate taxes for the average individual statutory net income within a class interval). In addition, both numerator and denominator of the estate tax ratio are estimated—see "allocation of estate tax," below, for details of method for this case.

TABLE I.—BURDEN OF DIRECT TAXES, BY STATUTORY NET INCOME CLASSES

Statutory net income class[1] (000 omitted)	Direct taxes paid, stated as percentages of statutory net income in each class				Estate tax equivalent premium as percentage of average net income[6]
	Federal income tax		State and local tax[4]	Total direct tax[5]	
	Corporation[2]	Personal[3]			
Year: 1924					
$ 5	1.79	.72	3.93	6.44	—
6	2.27	.87	3.95	7.09	—
7	2.66	1.04	3.92	7.62	.20
8	3.17	1.22	3.83	8.22	.18
9	3.47	1.39	3.83	8.69	.16
10	4.35	1.51	3.86	9.72	.14
11	4.64	1.75	3.92	10.31	.25
12	5.10	1.99	3.79	10.88	.23
13	5.42	2.18	3.66	11.26	.33
14	5.65	2.41	4.36	12.42	.40
15	6.42	3.01	3.71	13.14	.59
20	7.40	4.15	3.72	15.27	.65
25	8.03	5.22	3.37	16.62	.85
30	8.90	6.85	3.31	19.06	1.39
40	9.90	8.51	3.24	21.65	1.53
50	10.85	10.31	3.62	24.78	1.94
60	11.30	11.92	3.36	26.58	2.18
70	11.29	13.61	3.59	28.49	2.64
80	11.89	15.27	3.99	31.15	2.91
90	11.88	16.73	3.14	31.75	3.39
100	12.40	20.04	3.30	35.74	3.61
150	12.65	23.84	3.30	39.79	4.70
200	12.28	25.49	4.20	41.97	4.79
250	12.93	25.59	4.24	42.76	5.60
300	13.80	26.04	3.72	43.56	6.92
400	13.85	27.95	4.17	45.97	6.77
500	13.74	26.61	2.85	43.20	9.92
750	13.62	27.59	2.35	43.56	8.83
1,000	9.70	28.84	2.65	41.19	10.41
1,500	9.52	23.67	1.37	34.56	11.01
2,000	17.94	29.44	15.45	62.83	10.00
3,000	20.10	26.82	4.16	51.08	11.34
4,000	21.42	32.11	2.13	55.66	14.46
5,000 and over	29.41	39.56	1.99	70.96	8.95

For footnotes see p. 697.

TABLE I.—BURDEN OF DIRECT TAXES, BY STATUTORY NET INCOME CLASSES—(*Continued*)

Statutory net income class[1] (000 omitted)	Direct taxes paid, stated as percentages of statutory net income in each class				Estate tax equivalent premium as percentage of average net income[6]
	Federal income tax		State and local tax[4]	Total direct tax[5]	
	Corporation[2]	Personal[3]			
Year: 1927[7]					
$ 5	1.84	.38	4.39	6.61	—
6	2.41	.51	4.27	7.19	—
7	2.81	.61	4.13	7.55	—
8	3.22	.72	4.04	7.98	—
9	3.62	.85	4.58	9.05	—
10	3.97	.96	3.91	8.84	—
11	4.23	1.13	3.94	9.30	.13
12	4.56	1.29	3.75	9.60	.12
13	4.75	1.47	3.69	9.91	.11
14	5.08	1.66	3.79	10.53	.20
15	5.70	2.22	3.60	11.52	.42
20	6.58	3.30	3.43	13.31	.59
25	7.18	4.42	3.30	14.90	.74
30	7.80	5.76	3.18	16.74	1.26
40	8.60	7.32	3.07	18.99	1.37
50	9.15	8.58	3.09	20.82	1.73
Year: 1929[7]					
$ 5	1.63	.13	3.99	5.75	—
6	2.13	.18	4.03	6.34	—
7	2.53	.24	3.94	6.71	—
8	2.91	.31	3.89	7.11	—
9	3.29	.41	4.00	7.70	—
10	3.54	.52	3.60	7.66	—
11	3.83	.68	3.72	8.23	.13
12	4.10	.84	3.69	8.63	.12
13	4.39	1.00	3.75	9.14	.11
14	4.63	1.17	3.53	9.33	.20
15	5.19	1.73	3.58	10.50	.42
20	6.00	2.75	3.53	12.28	.59
25	6.48	3.81	3.26	13.55	.74
30	6.98	5.17	3.24	15.39	1.26
40	7.56	6.76	3.05	17.37	1.37
50	7.77	8.30	2.96	19.03	1.69

For footnotes see p. 697.

TABLE I.—BURDEN OF DIRECT TAXES, BY STATUTORY NET INCOME CLASSES (*Continued*)

Statutory net income class[1] (000 omitted)	Direct taxes paid, stated as percentages of statutory net income in each class				Estate tax equivalent premium as percentage of average net income[6]
	Federal income tax		State and local tax[4]	Total direct tax[5]	
	Corporation[2]	Personal[3]			
Year: 1932[7]					
$ 5	1.59	1.76	5.35	8.70	—
6	1.91	1.94	5.47	9.32	—
7	2.31	2.33	5.72	10.36	.20
8	2.54	2.73	5.69	10.96	.18
9	2.84	3.07	5.66	11.57	.31
10	3.14	3.36	5.78	12.28	.42
11	3.22	3.66	5.70	12.58	.64
12	3.47	3.89	5.57	12.93	.82
13	3.61	4.18	5.56	13.35	1.08
14	3.63	4.43	5.35	13.41	1.10
15	4.02	4.52	5.88	14.42	1.94
20	4.09	5.30	5.70	15.09	2.28
25	4.07	5.88	5.14	15.09	2.71
30	4.58	6.74	5.73	17.05	4.09
40	5.08	8.22	5.58	18.88	4.17
50	5.82	9.32	5.24	20.38	5.03
Year: 1933[7]					
$ 5	2.40	1.81	4.70	8.91	—
6	2.84	2.06	4.78	9.68	—
7	3.29	2.49	4.80	10.58	.20
8	3.73	2.95	4.96	11.64	.20
9	4.06	3.33	4.92	12.31	.31
10	4.63	3.66	4.97	13.26	.42
11	4.74	4.02	5.32	14.08	.64
12	4.95	4.34	4.78	14.07	.82
13	5.44	4.57	5.20	15.21	1.08
14	5.62	4.86	4.70	15.18	1.10
15	5.80	5.28	4.87	15.95	1.94
20	5.72	6.28	4.45	16.45	2.28
25	6.12	6.92	4.56	17.60	2.71
30	6.74	8.21	4.53	19.48	4.07
40	7.78	9.82	4.72	22.32	4.17
50	8.42	11.45	4.63	24.50	5.02

For footnotes see p. 697.

class $5,000-$6,000 in 1927, the total statutory net income was $1,104,607,000; and the state and local taxes paid were $48,495,000. Hence the ratio for state and local taxes is 4.39 per cent. The ratios obtained in this way are shown in Table I, columns 2 to 6, inclusive. Figures other than those for federal personal income and state and local taxes are in various degrees speculative. In particular the figures for the estate tax attempt to illustrate rather than to measure variations in liability from class to class. Both numerator and denominator for the ratios pertaining to federal personal income and state and local taxes are based on actual figures reported in the tax returns. In the case of the corporation income tax, the denominator is derived directly from official data; but the numerator is computed from official sources according to assumptions described below, and may be considerably in error. The estate tax involves questionable assumptions in regard to the calculation of an "annual" equivalent of the estate tax; both numerator and denominator are computed in this case, as is explained more fully below. A set of "combined" ratios, Column 5, was formed by adding the corresponding ratios for federal personal and corporation income taxes, and state and local taxes. The fourth type, estate taxes, was not included in the combined figure because the estimates in this case are less trustworthy.

Time variations in the ratio for the several taxes may be due to inconstancy of statutory net income as well as to alterations in the rate of taxes. Statutory net income changes result in part from the influence of the business cycle upon gross income and allowable deductions; but the changes

Notes to Table I.

[1] The lower limit of the class is stated.

[2] These figures are computed, for each income class for each year, according to the scheme shown in Table II.

[3] Percentages as tabulated in the official source: *Statistics of Income*, 1924, p. 100; 1927, p. 68; 1929, p. 61; 1932, p. 66; 1933, p. 68.

[4] Computed from figures for "Taxes Other than Federal" tabulated in the official source: *ibid.*, 1927, p. 13; 1929, p. 79; 1932, p. 80; 1933, p. 81. The 1924 tabulations, not published, were supplied by courtesy of Bureau of Internal Revenue. For 1933 the published tabulations do not include that portion of state and local taxes reported as business deductions on "Schedule A" of the tax return—this omitted portion ranges in recent years from about 4 to about 10 per cent of the total, and is somewhat larger for low than for high income classes.

[5] This item, called "combined" in the text, is the sum of items in columns (2), (3), and (4). Column (6) is not included in the total because the estate tax ratios were not similarly computed and because the assumptions involved in their computation are less clearly valid than those made in deriving columns (2) to (4).

[6] Method of computation is illustrated in Table III. See also text for comment upon the validity of assumptions involved.

[7] The higher classes for this year are omitted to save space. Chart I includes movements, for most of these higher classes, for three of the series shown in this table. The variations for state and local taxes are, except for certain erratic items, not notable in these higher classes.

may likewise issue from modifications in the definition of "statutory net income" enacted in the tax laws.[8] Another possible cause of time variations in the ratio, particularly for any class high up on the scale of income, is the instability of the average income per return in such a class. The width of the class intervals expands as the income increases, and this amplifies the degree of potential variation in average statutory net income within a high income class, particularly as the number of returns included is small.

Allocation of the Corporation Income Tax—The method employed in the assignment of federal corporation income taxes to a specific income class is manifest in Table II. The consensus of the testimony of business men in recent tax hearings in Washington indicates that federal corporation income taxes are deducted from net earnings before dividends are paid, and the dividend income going to individuals is thus reduced.[9] The total federal income tax paid by all corporations has therefore been allocated to individuals having incomes of various sizes according to the amount of dividends each income class reported in the tax returns.

The corporation tax is a rate levied against net earnings; a corporation may have no net earnings and therefore not be taxable but may, neverthe-

[8] "Net income means 'statutory' net income, *i.e.*, the excess of gross income over deductions as defined in the various revenue acts. Net income has been adjusted from time to time as follows: . . . (b) Contributions to charitable and scientific organizations, etc., not exceeding 15 per cent of the net income before deducting the contributions, are deducted for 1917 and subsequent years. For unlimited deduction of contributions see sec. 214 (10), Revenue acts of 1924 and 1926, and sec. 120, Revenue acts of 1928 and 1932. (c) Losses sustained in transactions entered into for profit but not connected with business or trade . . . for 1928 to 1931, inclusive, are wholly deductible excepting that for 1924 and subsequent years the loss, if incurred through the sale of capital assets held for more than 2 years is deductible from total tax, to the extent of 12½ per cent of the loss. For 1932, losses from sales or exchanges of stocks or bonds (other than capital assets held more than 2 years and other than bonds issued by a government or political subdivision thereof) are allowed only to the extent of the gains from such sales or exchanges. The Revenue act of 1932 provides that any excess loss thus disallowed, computed without regard to any losses sustained during the preceding taxable year, is, to an amount not in excess of the taxpayer's net income for the taxable year, considered as loss sustained in the succeeding taxable year from sales or exchanges of stocks or bonds other than capital assets (see sec. 23 (r) (2), Revenue act of 1932). . . . (d) Net loss for prior year resulting from the operation of any trade or business regularly carried on by the taxpayer: . . . The Revenue acts of 1921 to 1928, inclusive, provide that net loss in any year beginning after December 31, 1920, may be deducted from the net income of the succeeding taxable year, and if such net loss exceeds the net income for the succeeding year, the amount of such excess is to be allowed in the next succeeding year. The Revenue act of 1932 provides that a net loss for the year 1930 and succeeding years shall be allowed as a deduction in computing net income for the next succeeding taxable year only (see sec. 23 (i) and sec. 117, Revenue act of 1932)." *Statistics of Income,* 1932, p. 204. Omissions refer to years not included in this study.

[9] Hearings before the Committee on Ways and Means, House of Representatives, 74th Congress, 1st session, July 8-13, 1935 (no document number); Hearings before the Committee on Finance, United States Senate, July 30-August 2, August 6-8, 1935 (no document number) printed for the use of the Committee on Finance. These were immediately available by the kindness of Senator Sherman Minton; brief accounts also appeared from day to day in the New York *Times*.

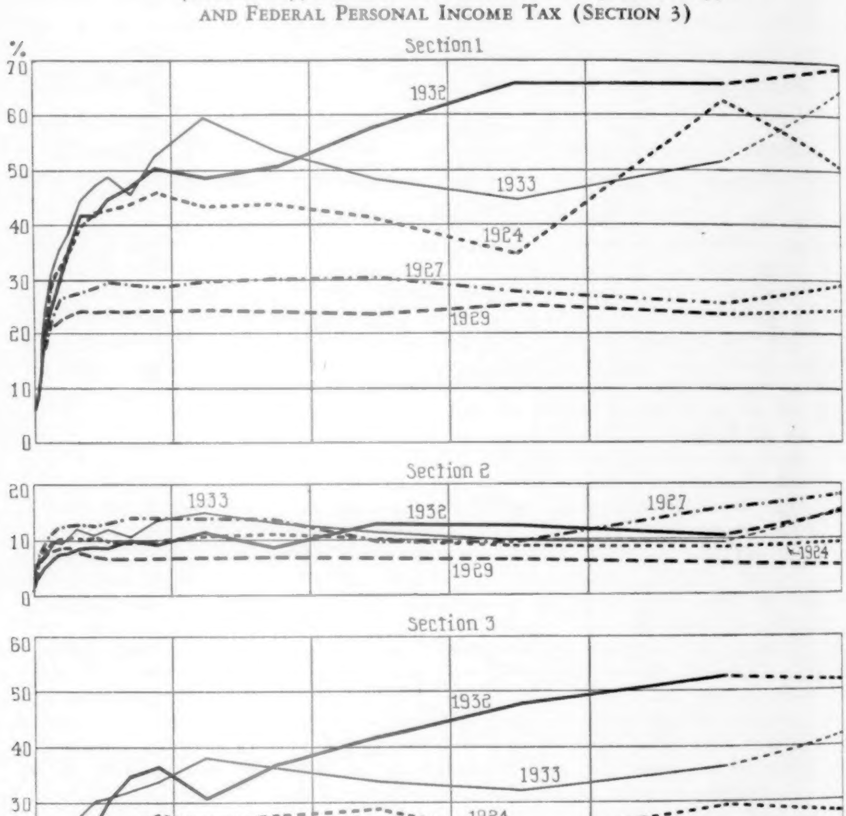
Table II.—Sample Computation of Corporate Income Tax Burden[1]
(Unit: $1,000 except lines 5 and 9)

	1924	1927	1929	1932	1933
(1) Corporation dividends paid	4,338,823	6,423,176	8,355,662	3,885,601	3,127,459
(2) Dividends received by corporations	915,216	1,658,076	2,593,052	1,259,982	1,025,709
(3) Net dividends paid, (1)−(2)	3,423,607	4,765,100	5,762,610	2,625,619	2,101,750
(4) Total corporation income tax paid	881,550	1,130,674	1,193,436	286,034	423,068
(5) Tax paid as per cent of net dividends, (4)÷(3)	25.74	23.72	20.71	10.89	20.13
$5,000–$6,000 class					
(6) Dividends received by this class	59,234	85,631	104,607	81,862	60,361
(7) Corporation income tax allocated to this class, (5)×(6)	15,250	20,310	21,640	8,918	12,150
(8) Statutory net income of this class	852,364	1,104,607	1,318,592	560,295	506,901
(9) Burden of tax, per cent of net income, (7)÷(8)	1.79	1.84	1.63	1.59	2.40

[1] Data from *Statistics of Income*. For example, see 1929, pp. 61, 76, and 267.

less, pay dividends (particularly in years of depression). Under these conditions, the tax as a per cent of dividend paid would be lower than indicated in Table II. The allocation of corporation income taxes on the basis of dividend income assumes in addition that the quality of the stock owned by the higher income classes is similar to that owned by the lower groups. These assumptions dull the precision of the measurement, but it is believed that the error is not large enough to change the character of the relative burden between income classes.

CHART I.—PROGRESSION OF TAX BURDEN FOR SPECIFIED YEARS: PER CENT RATIOS TO STATUTORY NET INCOME FOR "COMBINED" DIRECT TAXES (SECTION 1), FEDERAL CORPORATION TAX (SECTION 2), AND FEDERAL PERSONAL INCOME TAX (SECTION 3)



Gradation of Taxation

Chart I shows the ratios of federal personal income tax (Section 3), corporation income tax (Section 2), and "combined" taxes (Section 1) to the net income of each class in 1924, 1927, 1929, 1932, and 1933. The same federal revenue act applies to 1927 through 1931, with the exception of a reduction of the normal tax rate in 1929, and variations in the flat rate on corporate net earnings. Computations not shown in Table I reveal that the ratios for this period, with the exception of 1929, were practically the same, and only 1929 and 1927 are given. Little attention will be devoted to the classes above $1,500,000. The number of returns is very small—in 1932 there were no returns for the $3,000,000-$4,000,000 and the over $5,000,000 intervals; and the width of the interval is so large that the average direct tax rate per dollar of income fluctuates greatly in response to boom and depression.

The ratio for the federal personal income tax increases rapidly in all years up to about the $100,000-$150,000 level; gradation continues steep but at a slightly decreased rate for incomes up to $200,000-$250,000; and the progression consistency stops at about $500,000-$750,000. At the point where the progression consistency breaks down, there is an actual regression for all years except 1932; from this point to the last intervals shown in the chart any gradation which exists is very gradual. It is of course inevitable that the gradation should become less steep; for an ascent continued from any point on the scale at a progressive steepening would soon result in a practically vertical line reaching even above 100 per cent.

One of the outstanding features of the chart is the unequal way in which all tax ratios are distributed among the high income classes. The normal tax rate is not levied on dividend income, and the varying share of income received in dividends would result in noticeable irregularities for the federal personal income tax on the very large incomes. Partial explanation of such fluctuations lies in the availability of reporting tax credits. The owner of property, such as land, buildings, stock or what not, may sell and declare his profit as a capital gain provided it has been owned for two years, to be taxed at 12½ per cent in lieu of normal tax and surtax.[10] Incomes of the lower levels are derived mostly from wages or salaries, or personally conducted businesses or professions, and such a tax credit is not available. The alteration in the proportion of this item to statutory net income in the high levels, which receive a large share of income from investments, results in variations in tax liability. A realized capital net loss on assets held more than two years may be reported; and the tax credit al-

[10] Surtax rates on incomes: 1924, varied from 1 per cent on net incomes of $10,000 to 40 per cent on net incomes exceeding $2,000,000; 1927 through 1931, from 1 per cent on $10,000 to 20 per cent on over 2 million; 1932, from 1 per cent on incomes of $6,000 to 55 per cent on over $2,000,000. *Statistics of Income,* 1932, p. 207.

lowed is 12½ per cent of such loss, except that the tax so computed cannot be less than the tax computed without regard to this provision (losses deducted from gross incomes, and the normal and surtax rates figures on the statutory net income). Capital net losses are thus not always deducted in establishing the income groupings for the published statistics. Allowance as a tax credit rather than as a deduction from gross income may place the individual income in an interval other than would be the case if the losses were always a deduction. This will influence the average tax rate per dollar of income for a class, especially toward the top. The tax credit allowed for capital net loss and the dividend income obviating normal tax as reported for the individual may considerably change the average taxes paid for the class in which the individual thus falls; and the irregularities of the average are accentuated by the small number of frequencies and the width of the interval.

In regard to the corporation income tax, the tax paid as a percentage of net dividends decreases steadily in all years except 1933 (see Table II, row 5); while the tax rate increases from 12½ per cent in 1924 to 13½ per cent in 1927, decreases in 1929 to 11 per cent and is again increased to 13¾ per cent in 1932. The decrease in the tax paid per dollar of dividend income in 1929 is probably due in large part to the reduction in the rate. In the other years the decrease is due to the increasing proportion of dividends declared out of net earnings. This tendency is particularly marked in years of depression when profits are small and the effort is made to maintain general credit through dividend policy. If the corporation income tax were progressive, therefore, the curves for the different years would show similar gradation, at different levels. This is true only for income classes up to about $150,000.

Actual changes in progression appear wherever curves for two years cross. For example, 1929 crosses the curve for 1932 at about the $100,000-$150,000 interval and continues from there below 1932; 1924 crosses at about $1,000,000 and continues below 1932 to about the $2,000,000 interval (not plotted). Lack of progression is also evident where the curve for any one year is slightly inclined downwards. For example in 1929, the ratio at the $60,000-$70,000 interval is 8.40 per cent, at the $80,000-$90,000, 8.26 per cent, the $250,000-$300,000, 6.58. The amount of corporation income taxes paid, allocated according to dividend income, is not the important standard of the tax burden; it is rather the progression in the ratio of this amount to statutory net income.

The gradation of the corporation income tax in all years approaches an asymptote for the incomes above $150,000, but the irregularities are marked. Such irregularities result in part from the varying structure of incomes, especially among the wealthy classes; and likewise from the peculiar character of the tax laws. A corporation may have net earnings and pay taxes, but issue no dividends. Where the stockholders are few in number

and receive large incomes or where the controlling stock is held by a small number of wealthy individuals, this kind of practice might occur; for under these conditions, the surtax would be more than the corporation tax. The surplus thus accumulated may be distributed later through stock dividends which facilitate the taking of profits in the only manner that escapes imposition of the surtax, through the capital net gains provision of the tax law. To the extent that the form of business organization and likewise other such corporate and personal financial matters as dividend policies, expansion, reorganization of corporate structure and the methods of "taking profits" are governed primarily by consideration of obtaining the utmost exemption instead of normal considerations which should determine in questions of corporate and personal finance, the corporation tax becomes less equally distributed among individuals.

The state and local tax ratios shown in Table I, column 4, are so irregular that little could be gained by plotting these data. For example, in 1932 the ratio of state and local taxes to statutory net income for the $1,000,000-$1,500,000 class was 3.3 per cent; for the $5,000-$6,000, 5.35 per cent; $400,000-$500,000, 4.73 per cent. The ratios are thus regressive, if the persistent irregularities are set aside. The small number of returns within a class for incomes in the higher brackets must necessarily represent taxes paid in only a few states. Fluctuations resulting from variations in distribution of incomes and property between classes are thus accentuated by the varying character of the state tax laws, for example in 1924 the large increase in the amount of taxes paid by the $2,000-000-$3,000,000 class. It is necessary, however, to consider these taxes in the light of the whole system; for benefit rather than ability has been the standard of the burden for these particular taxes.

The Estate-Tax Estimates

Allocation of Estate Taxes—The estimate of the estate tax burden on the several income classes is in error to a greater degree than that of the federal personal or even the corporation income tax. The essential difficulty is to express in terms of an *annual* tax charge upon income a single payment which is made once in a life-time, at an uncertain future date. Moreover, the incidence of the estate tax is not uniform, and in general not clear-cut as between the testator and those who benefit under his will. The burden, therefore, which is related to the individual in possession of capital wealth is that of the duties which will fall upon his estate when he dies, and not that of the duties which may have fallen on property inherited by him. It is impossible to say what the estate will be worth when the individual dies, and no one assumption appears to be more clearly justified than another—he may lose money or he may amass a large additional sum. The rate of tax levied, the specific exemption permitted, the deductions allowed, by the estate tax law may vary; and the ratio of the

estate taxes paid to the value of the estate may increase or decrease. The estate tax rates on all estates were higher in 1924 than for 1927 through 1931, during which period the rate remained unchanged. In 1932 the rates were increased considerably over the 1924 level; and the specific exemption allowed, which had been raised in 1926, was restored to the 1924 figure.

Difficulties of this kind have been avoided by disclaiming all knowledge of the future, and the standpoint of the individual himself in a given year, for example, 1932-1933, has been taken. He does not know when he will die, what his estate will then be worth, or what the rates of the estate tax will then be. He can, however, and presumably does, make some provision for these taxes on a mere hypothesis as to the future. He can calculate what he will have to save in order to meet the estate taxes on a net estate, for example, of $100,000, if the value of the estate remains unaltered and if the same rates of estate tax continue in force. He can take out a life policy to insure the sum required on this basis, and the premium may then be a charge upon his income on account of the prospective tax.[11]

The method used capitalizes the interest, rent, fiduciary, and dividend income, to which is added the value of wholly and partially tax-exempt bonds; computes the taxes to be paid on the net estate (thus estimated) after the specific exemption has been deducted; assumes that an insurance policy is taken out to cover the amount of the taxes estimated to be paid at death; and solves for the annual premium paid (see Table III). The ratio of this "annual" tax—equivalent premium—to average statutory net income for each class is shown in Table I, column 6.[12]

For all classes in every year, interest and fiduciary income are capitalized

[11] The method of treating the "death duties" as equivalent to an annual life insurance charge was suggested by the Colwyn Committee Report on National Debt and Taxation, 1927, p. 80. The average annual premium used was $29.00 per 1,000, and it is assumed that a man takes out the life policy at age 45. This average is based on the combined American experience of 179 companies, *The Handy Guide* (1924), p. 3.

This method, however, does not meet the difficulty that the estate tax, being a liability on capital, can only in a limited sense be a tax on income. It applies a different test of ability to pay and provides for an element of ability which the income tax recognizes only in an inadequate way. The estate tax extends to assets such as jewels, pictures, and motor cars which do not produce any money income, as well as to unrealized capital gains, and thus supplements the basis of the income tax. It was not possible to include such assets, and the denominator of the estate tax ratio is not sufficiently inclusive.

[12] In capitalizing income to determine the estate of an income class, no provision was made for insurance because there are no official data showing the amount of insurance owned by each class. Although the value of a life insurance policy forms part of the estate liable to tax, after deduction is made for $40,000 allowed on the amount receivable by the beneficiaries on a policy taken out by the decedent on his own life, it is not so treated. The criticism that the insurance premium, in addition to an amount for accumulated reserve, covers expenses and an element of profit to the insurance company, is offset by the fact that the insurance method is the way of providing for the estate taxes open to everyone, while the "pure tax payments" would be quite imaginary. The allowance for expenses and profits is a refinement unnecessary and inappropriate to the broad character of the estate-tax estimation.

TABLE III.—COMPUTATION OF ESTATE TAX EQUIVALENT PREMIUM AS PERCENTAGE OF AVERAGE NET INCOME, FOR 1933

Statutory net income class[1] *(000 omitted)*	*Estimated net estate*[2]	*Amount of estate tax*[3]	*"Annual" tax equivalent premium*[4]	*Average net income per return*[5]	*"Annual" as percentage of average net income*[6]
$ 5	—	—	—	$ 5,462	—
6	—	—	—	6,465	—
7	$ 8,186	$ 82	$ 15	7,465	.20
8	19,978	300	15	8,475	.20
9	30,949	638	29	9,491	.31
10	49,230	1,462	44	10,479	.42
11	62,954	2,407	73	11,483	.64
12	74,451	3,212	102	12,483	.82
13	98,890	4,922	145	13,486	1.08
14	103,702	5,333	160	14,483	1.10
15	169,936	11,294	334	17,223	1.94
20	228,073	17,088	508	22,286	2.28
25	304,322	25,475	740	27,346	2.71
30	492,884	48,075	1,407	34,548	4.07
40	610,030	63,505	1,856	44,513	4.17
50	812,250	94,083	2,741	54,549	5.02
60	959,886	119,181	3,466	64,696	5.36
70	1,164,083	157,176	4,568	74,641	6.12
80	1,334,540	189,563	5,510	84,809	6.50
90	1,578,520	237,489	6,888	94,629	7.28
100	1,929,953	311,290	9,034	119,150	7.58
150	2,832,666	524,167	15,211	171,821	8.85
200	3,407,606	676,054	19,619	223,837	8.77
250	4,350,650	954,702	27,695	271,033	10.22
300	5,889,850	1,477,448	42,848	349,994	12.24
400	7,014,700	1,871,733	54,288	444,930	12.20
500	11,508,933	3,795,020	110,070	623,564	17.77
750	13,709,320	4,785,194	138,780	871,236	15.93
1,000	20,392,799	7,792,760	225,997	1,193,832	18.94
1,500	29,223,033	11,766,365	341,229	1,683,000	20.28
2,000	35,350,322	14,523,649	421,196	2,522,872	16.70
3,000	55,882,190	23,762,985	689,127	3,386,000	20.37
4,000	91,774,633	39,914,585	1,157,535	4,524,000	25.60
5,000 and over	118,405,000	56,398,250	1,505,042	8,780,000	17.15

For footnotes see p. 706.

at 4.5 per cent; dividend income from preferred stock, 5.4 per cent and from common stock, 4.4 per cent; net rent at 6 per cent.[13] The amount of federal and state obligations, wholly and partially exempt from taxation, reported as held by each class is given in the official report for each year.

Capitalization of the total income from these various sources was not made on the basis of a flat rate because in any year the income yield is not the same for all sources and the source composition of the total income of

[13] The rate of capitalization for interest and fiduciary income is an average for the years 1926 through 1931 of the yearly average yield of 60 high grade bonds combined. *Standard Trade and Securities,* III, p. 125. Comparable data were not available after 1931 and the period covered by the average was so limited. The interval appears sufficiently long to allow for variation due to at least one business cycle, and because of the nature of the original assumptions under which the "annual" estate tax has been appraised together with the rough character of the entire estimation, a longer period affected by trend considerations was not used. Each year was weighted equally, that is, no weight is applied in order that years of prosperity and years of depression might have equal part in the determination of the answer.

The rate for dividend income from preferred stock is an unweighted average for 1926 through 1931 of the yearly average yield of 20 high grade industrial preferred stocks; from common stock, an unweighted average for 1926 through 1931 of the yearly average yield of 90 common stocks combined. *Ibid.,* III, p. 122 and 120. The tax returns do not separate the income from preferred stock and from common according to income classes. Total dividends issued on preferred and on common stock by all corporations are available in the official data and the proportion of dividends from preferred stock to the total dividends issued was calculated for each year, 1926 through 1932, and then averaged.

Notes to Table III.

[1] Lower limit of class is stated.

[2] Net estate is the capitalized value of rent, fiduciary, interest, and dividend income, plus amount of tax-exempt bonds held—as averaged over a period of years (see text for more detailed description of method)—less the specific exemption. The specific exemption was \$50,000 in 1924, and in 1932 and 1933; but it was \$100,000 in the other years covered in this study. The specific exemption for each year is given in *Statistics of Income*, 1932, p. 214; sources of income according to classes are given *ibid.*, 1924, pp. 119–121; 1927, pp. 82–84; 1929, pp. 75–77; 1932, pp. 77–78; 1933, pp. 79–81.

[3] Amount of estate tax was computed as in the following example for a class interval (\$50,000 to \$60,000) in 1933.

Estimated net estate (*a*)	*Amount above which rate in bracket applies* (*b*)	*Amount subject to the bracket rate* (*c*)	*Tax on* (*c*)		*Tax on* (*b*) (*f*)
			Rate (*d*)	*Amount* (*e*)	
\$812,250	\$800,000	\$12,250	\$17	\$2,083	\$92,000

The amount of the estate tax is then \$94,083, the sum of (e) and (f).

[4] Insurance premium is \$29 per \$1,000 and \$15 per \$500. As life insurance for other than industrial companies is available only in units of \$500, each item of this column has been rounded to the multiple of 500 next above the calculated item. (Many insurance companies will not sell units less than \$1,000.)

[5] Computed from data on number of returns per class, and total statutory net income per class, given in the various issues of *Statistics of Income.*

[6] Per cent ratio of (4) to (5).

each class varies from class to class.[14] In a given year an individual with a small income may invest where return will be safer than an individual with a large income, but no provision has been made for this difference because of the lack of data. The wealth described by government bonds is as accurately distributed among the income classes as the data obtained from the tax returns will permit. The reported amounts are assumed to be understated, but no means are available for correcting this defect. Time variations in the source composition of income for each class and in the income yield of each source are taken into consideration—the capitalization rates are based on average yields during one business cycle and the amount of *each* source capitalized is an average for 1928 through 1932 of the average yearly return in any one class.[15]

Nineteen per cent, the average thus found, of the dividends of each class was capitalized at the rate of 5.4 per cent, the remaining part of the dividend income at 4.4 per cent. (Nineteen per cent represents a typical average—the range for the items within the series is small.)

The capitalization of net rent was decided upon after consulting: Frederick M. Babcock, *The Valuation of Real Estate* (1932), p. 441 and pp. 428-429; John E. Burton, "Some Principles and Problems of Real Estate Valuation," in *The Valuation of Vacant Lands in Suburban Areas,* Research Monograph 2, The Institute for Economic Research (Northwestern University, 1931), p. 134; and Richard M. Hurd, *Principles of City Land Values* (1905), p. 2. Burton says: "Retail business in business districts . . . 8 per cent on land and 10 per cent on improvements . . . best rental and financial property 8 per cent. Analyzing an 8-10 per cent rental we get the following as a fairly steady net return: 2 per cent off for taxes and water rent leaves 6 per cent for the land and 8 per cent for the structure; 1 per cent for deterioration leaves 7 per cent for structure; ½ of 1 per cent for upkeep and ½ of 1 per cent for insurance leaves a net return of 6 per cent for both land and improvements. If the rate is 10 per cent for both land and buildings there is an additional 2 per cent on the land to take care of loss of rent and vacancies and still a net 6 per cent return." Rent is reported in *Statistics of Income,* for example, p. 222 for the year 1932, in the form of net return.

Sources of income by net income classes are given in *Statistics of Income,* for example, see page 77, 1932.

[14] Although the present method of capitalizing only particular types of income derived from property is not without flaw, it perhaps meets the general objection raised against capitalizing *all* personal income. See Edward White, "Income Fluctuations of a Selected Group of Personal Returns," *Jour. Am. Stat. Assoc.,* 1922-23, especially p. 67.

[15] The capitalized value of rent is perhaps the roughest estimate. There is, of course, a fundamental and well-known basis on which land value rests. The value of land is the sum of all the net land incomes that will accrue in perpetuity discounted for the period of time that will elapse before they are received. Since incomes due 100 years in the future have only a negligible value today, the valuation of land involves a prophecy as to the net income of the land for the next 30 or 40 years. Such is a simple statement of a principle whose application is extremely difficult.

There are two main methods of computing land value, one based on sale or market price, the other on the capitalization of expected future net income. Theoretically the two methods should coincide for sales value over a long run should approximate the capitalized income. There is a tendency, however, that value of land based on sales exceeds its capitalized earning power in booms and falls below it in depressions. On the other side, once the net land income is determined for a past interval, this income is not necessarily to be capitalized to determine the land value. The only bearing the past income has upon the present land value is its indication as to what the probable future net income

The figures for the "annual" estate tax thus computed and shown in column 6 of Table I claim first, to illustrate the burden which may fall upon an *individual* with a given income if and when he takes out an insurance policy to provide for the estate tax, and second, to give some picture—a very rough one—of the relative burden on the more and the less wealthy taxpayer. The figures shown do not claim to represent an annual equivalent of the full tax which will actually become payable. Although, as has been emphasized, the estate may increase or decrease, it is likely that the estate—and with it the liability—may increase as the individual grows older, in accordance with the usual association between age and wealth of the higher income groups; and thus the premium may be quite inadequate to represent the actual tax burden. On the other hand, the incidence of the death duties may be partly on the successor. These considerations must be remembered when the merely illustrative figures of column 6 are related to the actual operation of the duties, and they have suggested such doubt as to the results in column 6 that these results were not included in the "combined" figures of column 5. The addition of the "annual" estate tax to the "combined" curve would not greatly change the general character of the progression; it would slightly increase the gradation above $30,000.

The irregularities in the "annual" estate tax shown in Table I may be attributed in part to the errors involved in the method of approximation. Inasmuch as life insurance policies are not generally sold on less than $500, the estate was rounded off to that figure. Another bluntness in estimation is due to the way in which the income was related to the estate. For example, in 1932, the tax rate enacted by Congress was 45 per cent on the portion of a net estate over $10,000,000 and about 31 per cent on the portion of this same estate below $10,000,000. The capitalized value of an income falling within the $500,000-$750,000 class was estimated at $11,509,933, within the $750,000-$1,000,000 at $13,709,320. The same enacted rate applies to both estates, and the amount of tax paid in the lower interval is less than that paid in the higher; but, the lower interval reveals a larger ratio when the tax is considered in relation to statutory net income.

If the ratios for the "annual" estate tax (Table I, column 6) are consulted in connection with the "combined" tax curve, a general picture of the burden of direct taxes upon income classes may be obtained. The first thing that strikes the eye is the curvilinear character of the progression. Steep gradation for incomes up to $250,000 is marked in all sections of

will be. Setting aside these theoretical considerations, facility, time, and available data require that the average value of the land owned by the average individual in each class be determined by the income approach.

The structure of rent income undoubtedly varies between individuals within a class and likewise for individuals in different classes for any given year, and for the same individuals during good years and bad. Again, facility and the lack of data have necessitated that the rent income of all income classes be capitalized by the same average rate for all years.

the chart, but is more pronounced for the "combined" curve. This difference in the progression is due to the cumulative effect of the regression in the state and local taxes plus the almost horizontal movement of the corporation income tax for the very large incomes. In 1924 progression proceeded from 6.44 per cent for the $5,000-$6,000 incomes to 42.76 per cent for the $250,000-$300,000 group, and then to 45.97 for the $400,000-$500,000 group, a difference of 3.21 per cent. Correspondingly in 1932 the gradation continued from 8.70 to 44.77 and then to 50.10; 1929, 5.74 to 24.28 and 24.52; in 1927, 6.61 to 29.54 and irregularly to 29.75 ($500,000-$750,000).

Conclusion

The foregoing statistical analysis measures the progression, with increasing income, of direct taxes per dollar of income. It shows that the progression is exceedingly steep for individuals falling within the range usually thought of as the middle class. For the group of individuals generally regarded as well-to-do or wealthy, those having incomes of $500,000 and over, there are marked irregularities from income class to income class; and these irregularities reveal wide inequalities rather than systematic progression within the entire group of well-to-do or wealthy. The analysis is a test of the existing tax burden in the light of the ability theory without attempt to justify that theory, which would involve an extended discussion of points altogether apart from a statistical treatment. The investigation inquires whether the burden is in fact distributed according to that theory.

Distribution of the tax burden according to the money value of taxable capacity involves consideration of the decrease in the marginal utility of income to the individual as the income increases. Any such rule can apply only in general, for much depends upon individual taste and family responsibility. So far as these last two points can be ignored, utility of the last dollar of income diminishes rather sharply after the essentials of living have been met, and then more gradually as the distinction between necessities and elementary comfort gives way to the choice between less and greater comfort and between comfort and luxury. In a general way, then, the utility of income diminishes, its taxability therefore increasing; and the process increases first at a more rapid and then at a slower rate. There is, however, a complementary aspect which imposes a check upon the ability to pay an annual tax. Money, saved and invested, supplies the financial and industrial needs of the community. From this point of view it cannot be said that the individual's income reaches a point of diminishing utility. And the tax, considered apart from the way in which the revenue is applied, affects the economic behavior of the taxpayer in allocating his net income or profits between spending and saving; it may limit his enterprise and industry and it may influence the direction of his savings. Conflicting

considerations of this sort merely suggest the nature of the non-statistical difficulties into which this paper does not enter.

The federal tax rates levied upon personal incomes are consciously based upon the ability theory; but the aggregate burden of taxation includes other important levies which are not so based. Within the limitation of the methods and data explained above, the present study of taxes actually paid indicates that the resulting progression in the combined tax per dollar of income is very different from the theoretical progression indicated in the federal law. If the theory upon which the federal personal tax is based may be regarded as sound, these results suggest the question whether the actual levies made should be arranged so that the combined burden would more closely follow the progression indicated by the theory.

MAXINE YAPLE

Harvard University

COMMUNICATIONS

The Displacement of Workers, 45-64 Years of Age: Comment

In a recent issue of this *Review*[1] Mr. Mittelman suggests that "a stampede in the direction of old-age pensions" has resulted from the mistaken notion that the rate of unemployment during depression was higher for older (45-64 years) than for younger (18-44 years) workers. It is my opinion that the demand for old-age assistance was based on a consideration of length of unemployment as well as the rate. Although the highest rate of unemployment may be among young men, this is mostly unemployment of short duration; the greater burden of unemployment falls upon male workers of the higher ages because of the greater length of time unemployed. But however that may be, it is the interpretation of relief data to which I direct attention.

Basing his view on a relief census in Portland, Oregon, in 1933, the author concluded that it was the younger and not the older workers who were sacrificed during the depression; that is, ". . . the relative displacement was uniformly higher for older workers before the depression than for younger workers, and uniformly lower after the effects of the depression had had time to register."[2] This conclusion does not appear to be justifiable until it has been shown that the age distribution of the *relief* population in 1933 was representative of the workers who lost jobs during the period 1927 to 1933.

In Table I the author indicates the basis for accepting the age distribution of the employed male workers in Portland as representative of the United States. But he neglects to establish the relationship which is necessary for his conclusion—namely, whether or not on a basis of age, the employables on relief are representative of the unemployed. The statement that "the adequacy of the smaller number to represent the larger is indicated by the likenesses of the parts . . ."[3] apparently refers to the 6,959 relief workers in 1933 and to the 97,673 employed in 1930. But this is not germane because it indicates the basis for accepting the sample as representative of the *employed,* whereas the author proceeds to interpret as if the sample were representative of the *unemployed.*

To show that the relief workers in a particular month of 1933 are characteristic of the workers who lost regular jobs between 1927 and 1933 involves a double problem: (1) Did reëmployment during this period fall proportionally between old and young workers? What part of those who lost regular jobs between 1927 and 1933 were reëmployed before the relief census? (2) What part of the unemployed in 1933 were not on relief?[4] The latter is probably the more important of the two queries. The relation between unemployment and relief is not uniform and immediate. There is no basis for assuming that resistance to relief is uniformly distributed between old and young workers. Perhaps older workers resist relief longer because of (a) accumulated savings and insurance, (b) assistance from relatives and friends, and (c) psychological repugnance. For these and other reasons the author's conclusion regarding unemployment may be characteristic only of the relief workers.

The heading of Tables II and III, "Relative Displacement of Male Workers between 1927 and 1933 . . ." is unfortunate because the tables do not contain

[1] March, 1936, pp. 81-83.

[2] P. 82.

[3] P. 81.

[4] The expression on page 83 ". . . the results under-estimate rather than over-estimate the position of the older workers in the depression" is not clear.

data on the displacement of workers during that period *but only information about that part of such workers as were on relief in one month of 1933.* It is regrettable, too, that some information was not provided about the derivation of the index numbers in those tables. The index number for 1932 is so unusual in relation to the preceding and following years as to require explanation. Since the analysis deals only with loss of jobs held a year and a half, how many of the admittedly small number of cases studied were eliminated because the worker had never held employment that long between 1927 and 1933? Were such cases concentrated among younger workers? Are not those who lost jobs during the later years, 1932 and 1933, more likely to have had regular employment? Lastly, how reliable are the answers of relief clients to a question about their last regular employment? One wonders if the high displacement shown in 1933 may not be a consequence of the census having been made in that year.

Many current observers have failed to differentiate the unemployed and relief population. The employables on relief have amounted to only one-fifth to one-half of the estimated unemployed. In the high relief month of January, 1936, for example, there were 6,386,000 employables on W.P.A. and relief while A.F. of L.'s estimate of unemployment was 12,646,000 and Nathan's was 11,687,000. Much of the current confusion as to why relief rolls do not always decline as employment increases is based on the failure to recognize the fact that we have millions of non-relief unemployed who may find jobs without reducing the relief load or who, despite increasing employment, may be thrown onto relief due to the exhaustion of their resources. In addition, one suspects that we have not yet taken full cognizance of the number of unemployables on relief.

It is well established that the incidence of unemployment is not uniform but is concentrated in certain classes on a basis of occupation, age, color, race, aptitude and other characteristics. Furthermore, there would seem to be *a priori* grounds for the belief that the incidence of relief is not uniform among the unemployed. To the extent that this is the case, there are severe limitations upon drawing conclusions about the nature of unemployment from the relief censuses.

Don D. Humphrey

Washington, D.C.

The Displacement of Workers, 45-64 Years of Age: Reply

The article did not attempt to discuss the chances of employment for young and old workers under all circumstances and conditions, including "color, race, aptitude and other characteristics," but merely to indicate that the common belief that in hard times employers in search of economies turn out their older workers, is not fully founded in fact. For instance, after an elaborate review of the current economic system, one institution, in summarizing its results, explains the per capita increase in output since the depression descended as being in part due to the release of aged workers. If this is not so, it is important to know it.

Mr. Humphrey finds the matter of sufficient importance to undertake an interpretation of relief data in general, but within the meaning of the article he makes just one point, which is that the conclusion that older workers were displaced in relatively smaller numbers during the depression than younger workers does not necessarily follow from the sample used. The validity of the sample, he argues, was established in relationship to the employed; what should have been made certain is that it was representative of the unemployed. In support of his

position he cites the current estimates on unemployment and the number of employables on W.P.A. which stand in relationship to one another as 2:1.

In the first place, no one knows what the unemployment estimates mean. Nor does anyone know what the W.P.A. figure means. Many relief agencies have certified all but the bed-ridden for W.P.A. employment as a means of easing their own burden. This means that not only is the number of unemployed a matter of conjecture, but the number of employables off relief, of unemployables off relief, of employables on relief and of unemployables on relief as well. Mr. Humphrey would probably agree that both categories of unemployables are of no concern to the problem. The only group of interest not accounted for is the employables off relief. But in his concern for this group, Mr. Humphrey puts himself into a rather awkward position. In the first paragraph he argues, "While the highest rate of unemployment may be among young men, this is mostly unemployment of short duration; the greater burden of unemployment falls upon male workers of the higher ages because of the greater length of time unemployed." But in the second last paragraph, in explaining the difference between the unemployment estimates and the number on W.P.A., he argues that it is not always recognized "that we have millions of non-relief unemployed who may find jobs without reducing the relief load or who, despite increasing employment, may be thrown onto relief due to the exhaustion of their resources."

In so far as they fall on relief, they were accounted for. In so far as they find jobs through their own efforts, when considered in connection with the relatively smaller number of employables on relief aged 45 to 64 years displaced during the depression, in relation to those 18 to 44 years, it must mean that the employables advanced in years, not on relief and by implication not accounted for in the sample, were more successful in relocating than the employables younger in years. The other possibility is that they had savings, relatives or "repugnance." In any case, under these terms, they were a more substantial part of the occupational group, more successful with past as well as prospective jobs. This means that the sample used represented the hardest pressed element in the industrial community both on and off the job. Since this element was weighted on the basis of age in the same way that the occupational group in general was distributed, it can safely be taken to represent the chances of displacement, on the basis of age, not only of those still at work, but those not at work, yet so favorably situated with respect to past and prospective jobs as to be able to take care of themselves. Age is on the side of security in the better, not the poorer jobs. As it was, those 18 to 44 years in the sample, represented 65.1 per cent of the total, and those 45 to 64 years, 34.9 per cent, compared with 65.7 per cent and 34.3 per cent for the corresponding classifications in the entire occupational group. On splitting the data along industrial lines, which from the point of view of age are more or less arbitrary divisions, the same tendencies appeared. Even the exceptions are reassuring, occurring as they did in the building industry, where the employment relations are notoriously loose.

All in all, granting that the self-sustaining unemployed have not been accounted for, as Mr. Humphrey argues, that is rather a virtue than a defect in the sample. In considering any phase of the social security program it is far more important to know the position of those already in distress than of those still capable of caring for themselves.

Mr. Humphrey shows some concern over the youngest workers within the younger of the two groups considered. He will probably admit that since the

younger group as a whole, both in the sample and in the general population, represented about 65 per cent of the totals under consideration, no serious error was committed in adopting a procedure that slighted the youngest among them, particularly since the position of the youngest workers in industry is not yet fully established. They alternately shift between school and industry, depending on a variety of circumstances, personal and industrial.

Mr. Humphrey wonders how accurately people can report the year in which they lost their jobs. This would be in question if all jobs had been considered, regular, casual and odd. Since only regular jobs that ran for at least a year and a half were considered, the time, whatever else may be said against it, was on the side of accuracy. The 1932 figure is out of line with the preceding and following year only in extent, not, except for the building industry, on the displacement of younger and older workers. (For a fuller account of the material than originally was thought necessary see: *Occupational Characteristics of Workers on Relief*, E. B. Mittelman, Salem, Oregon, State House, 1936, pp. x, 106.)

E. B. Mittelman

University of Oregon

Theory of the Shortened Working Week: Comment

While expressing thorough appreciation of Professor Carver's excellent analysis of the theory of the shortened working week, may I call attention to one point which I think he has not made entirely clear. In discussing the increase of the number of shifts, with or without changes in the number of working hours or the money rate of wages and the effect on the labor cost per unit of product, he declares that the cost of the capital employed would be lessened; and he opens the way to the impression, though he does not say so explicitly, that this reduced capital cost would approximate inversely the added number of shifts. It seems to me that anyone making this inference would be mistaken, in that capital employed in productive processes calls for two returns—one for its use as interest or dividends, and another for its maintenance and replacement as it is consumed or worn out. The variation in interest rate, of course, would make a larger or smaller demand but would have no relation to the multiplied shifts. So with respect to the capital invested in plant site, and possibly some other items that would not be affected by two or three or any number of shifts instead of one. But the part of the capital investment represented by the plant and machinery usually has a life capacity for a determinable amount of product; and turning out twice or three times the number of units in a given period proportionally shortens the period of usefulness and correspondingly requires a larger reserve for maintenance and replacement. The saving on capital cost through multiplied shifts, therefore, cannot be in the ratio of the unit increase of labor cost ascribed to fewer hours at the same hourly wage—with consequent effects on the total amount of labor and capital unemployment.

Economic progress, as I see it, is measurable in the steadily improving efficiency of labor promoted by the intelligent use of capital, augmented by and responsible for the constantly higher level of living. Wages are labor's share of the product; and, if there were no product, there would be nothing to share either by labor or capital. The proportion of the division is ever subject to contention. Shortened working hours are good so far as they conduce to greater efficiency or better output, but clearly the idea of more and more time for recreation and fewer and fewer working hours ends logically in all leisure and no work with no output to

be distributed as wages, interest or profits. The proper balance of work and leisure hours must rest on the standard of living of all concerned—a rising standard of living sets limits on lowering the number of work hours.

VICTOR ROSEWATER

Philadelphia, Pennsylvania

Theory of the Shortened Working Week: Reply

I wish to thank Mr. Rosewater for calling attention to a point on which I did not make myself clear. I certainly did not say and did not even mean to imply that the cost of the capital employed in production would be lessened *in proportion to* the number of shifts. All I meant to say was that the capital cost per unit of product would be lessened in some degree as capital's working time per day or week was increased.

It is true, as Mr. Rosewater says, that when machines work longer hours they wear out more rapidly; but this cannot apply to the land, and probably not to the buildings which support and house them. There is, however, another factor which Mr. Rosewater seems to have overlooked, and that is obsolescence. When a machine is worn out before it becomes obsolete, obsolescence is not a factor in the cost of replacement, but when it becomes obsolete before it is worn out, obsolescence is a factor. The longer the hours per day or week that a machine works, the less likely it is to become obsolete before it is worn out. In a large sense, therefore, the cost of obsolescence is decreased as capital works longer hours.

Buildings quite generally become obsolete before they are worn out. The more hours per day or week that they are used, the less the cost of obsolescence. That is, they can turn out more units of product before they have to be replaced.

I know of no reason for believing that a machine wears out faster *in proportion to the number of units of product turned out* when it works long than when it works short hours. In the absence of information to the contrary, I assume that it wears out at a uniform rate per unit of product whether it works long or short hours.

This seems to bring us to the following conclusions. The cost of maintenance and replacement is made up of two parts: wearing out and obsolescence. The cost per unit of product due to wearing out is uniform whether capital works long or short hours. The cost per unit of product which is due to obsolescence is decreased as capital works longer hours, assuming a uniform rate of speed. And, of course, as Mr. Rosewater says, the interest cost per unit of product is also decreased. In short, the capital cost per unit of product is, in some degree, decreased as capital is made to work longer hours. Increasing the number of shifts may make capital work longer hours.

T. N. CARVER

Washington, D.C.

Addendum

In my article, "Malthusianism in Eighteenth Century America," this journal, volume XXV, December, 1935, pp. 691-707, reference was made (footnote 31, p. 701) to an apparently anonymous paper "Population and Emigration." This paper was written by James Madison.

J. J. SPENGLER

General Works, Theory and Its History

Economic Principles and Problems. Edited by WALTER E. SPAHR. Vols. I and II. 3rd ed. (New York: Farrar and Rinehart. 1936. Pp. xx, 713; xvii, 855.)

The handicraftsman, with his workmanlike joy in the completed product, is being forced from one of his last redoubts—the writing of principles of economics. Rugged individualism is yielding to specialization, organization and mass production; and the harassed students, once required to master the ideas of one man, face in this new text a squad of 26 experts, armed with specialized knowledge and more than 1,500 pages of up-to-date material. The list of contributors includes Professors Berman, A. G. Black, Bogen, Fred Clark, Daugherty, Doran, E. Dana Durand, Fabricant, Fetter, Graham, Haney, Haskell, S. S. Huebner, Jordan, Mund, Muntz, Nunn, Nystrom, Orton, S. H. Patterson, Spahr, Stocking, Studenski, Willard Thorp, Wootton and Zimmerman.

This new "edition" is really a new book, not the work of New York University men alone, but of other men from various parts of the country—a "nation-wide coöperative enterprise," as the editor indicates. Most of the chapters are new, the others have been revised, the number of chapters has been increased from 36 to 48; and they have been rearranged, with distinct improvement in the general plan.

Critical examination of all the material presented here is impossible within the limits of this review; but perhaps it may be pertinent to examine the theory and practice of such coöperative enterprises. The editor is on solid ground in his assumption that the scope of economics has grown so wide that only specialists in the various fields can achieve the "perspective, maturity, sureness of touch, and richness of illustration needed." Even simplicity in exposition demands thorough knowledge which few can acquire in all the fields into which economics is conventionally divided. Some of the chapters in this new treatise rise to an excellence that can be achieved only by able men, through long study of the particular fields.

The problem of integrating the contributions of many men is so difficult, however, that it is doubtful if it can be done with entire success, even through the most careful editing. In the present work, for instance, Professor Fetter has written the chapters on the central problem of value; and the chapters on wages, interest, rent and profits, written by three other men, do not follow with logical inevitability the theory of value laid down. It is scarcely possible for any one writer of an economics text to make his own work hang together with complete consistency; and it is of course more difficult to fit together the ideas of a number of men into a consistent whole. Inevitably there will be duplications, perhaps with slightly different em-

phasis, different definitions of terms—as, for instance, with respect to capital, in the present work—and different points of view, which, however useful to the trained economist, may be confusing to students. The balanced conclusions of Marshall or Taussig are scarcely possible in coöperative work.

It must be conceded, on the other hand, that few individually written texts represent the exposition of any definite, integrated body of principles that can properly be called "principles of economics," as does, for instance, Marshall's *"Principles."* Most texts are pretty largely collections of chapters on the conventional subjects, with only a tenuous thread binding them together, with scarcely any consideration of the assumptions underlying the capitalist order which is being described, or any general critical appraisal of its operation. It appears that as the wealth of economic knowledge increases, we are progressing, not toward a "definite, coherent heterogeneity," according to the Spencerian principle, but toward an indefinite, incoherent heterogeneity; and the implication of such coöperative works as *Economic Principles and Problems,* that there is no central body of doctrine which can be called "principles," or that they are too complicated to be understood, even by professional economists, is not heartening to some of us professed teachers of those principles. Still less cheering is it to students, who cannot divide the work of learning in the way that the writers of the texts divide their own work.

All this must not be construed as a criticism of the imposing and excellent work under consideration. This text will serve well where enough time is given to master it. Perhaps the size of the treatise, and of some other recent texts, may suggest that we shall eventually establish for economics majors a "curriculum" in economics, built around a single comprehensive text. With a generous amount of collateral readings, this book would serve such a purpose well. Such a curriculum would unify the students' work much better than scattered courses in the various fields, and would leave more time for intensive specialization in some one field.

John Ise

University of Kansas

The Modern Economy in Action. By Caroline F. Ware and Gardiner C. Means. (New York: Harcourt Brace. 1936. Pp. xi, 244. $1.20.)

Important frictional elements are included in the basic assumptions in this analysis of some economic problems of the day, and this "new economy" is contrasted with the "old economy" of free competition where automatic adjustment was secured through prices. Under the "old economy," prices were the result of individual bargaining in a market, but with the rise of the factory and the emergence of corporate control, the economic activities of an increasingly large proportion of our productive resources and labor are determined to a large extent by administrative decision. "In

short, modern technology has brought economic relationships out of the realm of automatic, impersonal adjustments and into the realm of personal, administrative decisions. Here lies the central contrast between the old economy and the new" (p. 14).

A discussion of the causes for the failure of the "old economy," and proposals for remedying the difficulties, occupies the major part of the book. The monetary and price system fails to function properly because the supply of money and credit does not ordinarily coincide with the requirements for them. A central authority must be set up to supply the "right" amount of money, and separation of the deposit and loan functions of banking is probably the best method to secure the end desired. Flexible prices should be adjusted through monetary control so that the general level of prices will fluctuate closely about a "table-land" of inflexible prices adjusted for the effects of technological improvements. Monetary measures are also necessary to secure proper balance between saving and the creation of new capital goods, since changing desires for liquidity, variations in security prices and speculation, and the separation of ownership and control prevent automatic adjustment. A program of public works is necessary during depressions to increase the volume of spending.

Industrial policy must be controlled in some manner, because the correct business policy for individual corporations in many fields brings inflexible prices and variations in output as the adjusting factor, a policy which is harmful to the general economy by forcing unemployment and reducing purchasing power in depressions. International trade must be regulated through management of the currency, control over foreign investment and restriction upon rapid fluctuations in the volume of goods movement, since inflexible prices and the fluidity of security movements prevent adjustment through the price-specie flow mechanism. Social security is increasingly important because the proportion of the producing population has declined markedly, and the average family has become too small to provide adequately for the non-producing members. Individual savings are insufficient in most cases, and their utilization in periods of depression is a disturbing influence on the general economy because of the effect upon security prices. Care of non-workers should come from current production, rather than reserves, except in the case of widespread unemployment. The amount and kind of general planning necessary to coördinate the various spheres of planning now existent, and political problems involved, are discussed in the final chapters.

Although the authors point out in the preface that the descriptions of the "old" and the "new" economies have been over-simplified for the sake of clarity, greater caution might have been observed in the later analysis and the conclusions modified in view of the complexities omitted from consideration. In contrasting the two economies, it is not always clear whether

the "old economy" was merely the analytical framework set up by the classicists, or the economic world as it actually existed. On many particular points other economists will disagree with the authors. Is a stable or falling price level to be desired? Is the reduction of output with maintained prices in some fields greater in total than the curtailment of production with falling prices in a laissez-faire economy? Is the assertion correct that concentration in industry is growing; and does the fact that a small number of corporations controls a very considerable proportion of the wealth of the country mean that oligopoly is common to all the industries represented?

Nevertheless, the analysis is provocative; and the suggestions for achieving adjustment through gradual change in order to escape from the difficulties of a rigid economy or the perils of dictatorship are worthy of serious study.

W. EDWARDS BEACH

Williams College

The Law of Wage Action. By WILLIS L. HOTCHKISS. (Cleveland: Eaton Pub. Co. 1936. Pp. 238. $2.25.)

This book is of interest largely because it is a good representative of a type of study which the present depression has brought forth in great profusion. The author begins by making a cost analysis of pig-iron production. He finds that although pig-iron wages increased 152 per cent in the period 1909 to 1925, the cost of producing a ton of pig-iron increased only 44 per cent and the annual rate of production per person employed increased 74 per cent. The result was that the large wage increase added less than three per cent to the labor cost of producing a ton of ore. Hence it is inferred that wages can be substantially increased with only a small increase in cost, and such a wage increase would mean the distribution of a very considerable sum of money among the 29,000 workers in the industry, who would eagerly spend their greater earnings and thus create employment for others.

The author makes a similar analysis of steel, automobiles, electricity, telephones, railroads, oil, cotton, wool, boots and shoes, flour, and meat, and in all cases arrives at essentially the same results. Upon the basis of these analyses he formulates the *law of wage action*: "Where a raw material . . . is processed by one or more mechanical operations, a major increase in annual compensation paid in the production of the raw material and in the successive mechanical and merchandising operations, will have but a relatively small effect on the cost of the ultimate finished units."

The "cure" for the business depression is to abolish judicial review and place control of economic policies in the hands of the federal government. Then the federal government applies the *law of wage action* to force a substantial wage increase throughout all industry.

We have here a rather crude statement of Hobson's theory of under-

consumption and an attempt to give it validity by means of quantitative analysis. The author bases his analyses of the various industries upon the changes in wages, costs, and prices occurring during the period 1914 to 1925. Of this period the author says, "It is a laboratory which enables us to make a clear-cut analysis of the relationship between wages on the one hand and prices and cost of living on the other." To derive a law from data concerned with this period alone—the convulsive period of the World War and of post-war adjustments, and then to propose that this "law" be applied as a cure for business depressions is, to say the least, a haphazard process. Had the author taken the period 1896 to 1912 as his laboratory, he would have found that wages *lagged behind* prices and costs of living. What kind of "law of wage action" would he have drawn from this laboratory?

Hobson's theory of under-consumption may be sound, but it certainly has not been validated by Mr. Hotchkiss' quantitative analysis.

EARL E. CUMMINS

Union College

Boisguilbert, Economist of the Reign of Louis XIV. By HAZEL VAN DYKE ROBERTS. (New York: Columbia Univ. Press. 1935. Pp. x, 378. $3.50.)

Although the economic ideas of the Rouen magistrate have been elaborated by Cadet, Horn, Daire, Cohn and others, much detail and comparative work remained undone. Miss Roberts has made an earnest effort to supply these deficiencies. Her first three chapters tell how Boisguilbert tried to reform the tax system of France by showering unwanted advice on Pontchartrain and Chamillart. His only reward was the proscription of his writings followed by the ignominy of temporary exile, a month after humiliated Vauban placed his *Dîme Royale* in the hands of his confessor and died full of years and grief. The account of Boisguilbert's unsuccessful efforts to persuade the government to adopt his reforms is related accurately but clumsily, since the prolix magistrate is allowed to tell his own story.

A brief bibliographic chapter is followed in turn by two vivid chapters which describe in detail the fiscal, economic and political abuses against which Boisguilbert directed his fruitless protest. The remainder of the book is devoted to an analysis of the theoretical content of Boisguilbert's writings and to a comparison of his economic ideas with those of Adam Smith. Placing chief emphasis upon his theory of economic equilibrium, Miss Roberts shows how clearly Boisguilbert realized that economic well-being depends upon adequate production and unfettered exchange of commodities, upon money and credit as means rather than ends, upon high velocity of funds correlated with business confidence, upon widely diffused and abundant consumption, upon a minimum of governmental interference.

This emphasis on the enchainment of Boisguilbert's doctrine is correct, proper, and praiseworthy.

Unfortunately, Miss Roberts has fallen so passionately in love with her hero that she fails to see his shortcomings. Although humanitarian in purpose, Boisguilbert's proposals for tax reform were by no means as puissant as he alleged in his impertinent letters to Chamillart. Many of his sociological ideas, which Miss Roberts regards as original, were hoary old dogmas: the doctrine of original communism, or the polemics against gold and silver, for example; indeed his central concept, the *prix proportionnels* was essentially medieval, ethical rather than economic in its fundamental nature. Like Funck-Brentano who styled Monchrétien the founder of political economy and like Patrick Dove who accorded the same honor to Andrew Yarranton, Miss Roberts has been misled by her enthusiasm. Although there is a great deal of similarity between the ideas of Boisguilbert and Smith, too much space has been allotted to a tedious and insistent collation. Miss Roberts has also overstated her case by repeated efforts to show that Boisguilbert "anticipated" Rousseau, Carey, Ricardo and Marshall. Almost every thinker has been "anticipated"; it all depends on context!

Meantime Miss Roberts has failed to do a more appropriate task; she has scarcely bothered to compare Boisguilbert with previous writers or with his neo-contemporaries. A pervading religiosity in Boisguilbert, for example, led to a theory of internationalism nearer to that of Humbert de Romans than to that of Smith; his uncrystallized ideas on rent compare unfavorably with those of Petty, and his ideas about circulation of goods and the velocity of money are strikingly similar to those of Cantillon, although this likeness is passed over in silence. Scant comparison has been made between Boisguilbert and his contemporary, Vauban; and very few of the probable debts of physiocratic writers have been signalized. Sometimes by attempting less, one may accomplish more!

E. A. J. Johnson

Cornell University

The Price Level: A Further Problem in National Planning. By K. E. Edgeworth. (London: Allen and Unwin. New York: Adelphi. 1936. Pp. 166. $1.75.)

In another book Colonel Edgeworth has argued that a country's balance of trade is best controlled by means of an adjustable exchange rate. He believes there to be "ample evidence" that, apart from disturbances in that balance, the bank rate may be effectively employed to iron out business fluctuations (p. 26). There remains for consideration in this volume how, and upon what principles, the general course of prices over periods of years should be governed. For the purpose of roughly stabilizing commodity prices he proposes adjustment of the average level of wages by a wages board (chap-

ter 8) supplemented by judicious and discriminating management of credit (chapter 9).

This little book illustrates some of the dangers that beset an engineer who enters the field of economics. Two are specially apparent. First, the book contains a large number of analogies drawn from the field of engineering. So far from clarifying any issue, these are either simply beclouding (pp.32-36), or else they suggest a degree of simplicity which does not in fact attach to the problems under discussion (pp. 135, 149-150), or alternatively they impart to truisms an unjustified air of erudition (pp. 24-25). Second, and more seriously, the engineer concerns himself only with how his proposed controls should work, and never with who should, or in all probability would, work them. Yet in economics this is surely vital. As cogs in the economic machine, we will accept from those whom we believe to be our friends measures of control which we would not tolerate, *except under compulsion,* from those we distrust. What justification is there for Colonel Edgeworth's belief that his wages board would reduce the friction between employers and employed (p. 129)? Suppose that the workers, or the employers, held views different from that of the board regarding their "legitimate grievances" (p. 131), would strikes or lockouts be allowed? The context, indeed the whole tone of the book, suggests a negative answer. The wage problem, like the currency problem, is not for the engineer either a political or even a social one: "it is an intellectual problem" (p. 111). As we solve these conundrums, so shall we prosper. What a faith, indeed, is necessary to write, in the year of grace 1936: "If we assume, and we are surely entitled to make this assumption, that the monetary and economic system of the future is to be a definite improvement on the system of the past, then we are entitled to assert that wages will be raised at such a rate that there will be no excessive profits and that currency and credit will be allowed to expand in such a way that there is no artificial and unnecessary restriction in the supply of these necessary ingredients in the scheme of industrial prosperity" (p. 55).

A. F. W. Plumptre

University of Toronto

The Theory of International Trade, with Its Applications to Commercial Policy. By Gottfried von Haberler. Translated from the German by Alfred Stonier and Frederic Benham. (London: William Hodge. New York: Macmillan. 1936. Pp. xv, 408. 21s.)

Economists will welcome this excellent translation of a significant and scholarly work which first appeared in German in 1933. The contents of the volume are equally divided between international trade theory and trade policy. Contrary to the more common practice, the monetary aspects of theory are introduced first. This portion includes, as well as a discussion

of the exchanges under the gold standard and under inconvertible paper currency conditions, an elaborate analysis of the transfer problem in terms of the Keynes-Ohlin controversy. On the disputed question of what part price movements play in the mechanism of transfer, the author takes a position intermediate to that of these two protagonists, concluding in general that the answer depends upon a number of factors which may vary in each concrete instance, but in particular agreeing with Ohlin that "the analysis must be in terms not of general but of sectional price levels."

While space forbids a detailed consideration of the numerous interesting issues raised in this section of the book, one minor but conspicuous point deserves mention. Haberler regards the granting or repayment of a loan, during the period within which the payment or repayment occurs, as a unilateral transfer, like free gifts or political tribute, where something is given for nothing. But what about the securities acquired or returned? Surely these claims to wealth cannot be regarded as valueless; if they were, why should their purchasers require their delivery?

The sections on trade policy include a full and systematic analysis of the arguments, both intellectually respectable and childish, in favor of tariffs, an excellent theoretical chapter on the effects of tariffs, and another on dumping and related topics. The only portion of the book that could be called primarily descriptive is the last sixty pages, which deals with tariff laws and other forms of protection and with commercial treaties. Even here, evaluation of policy occupies a prominent place.

It is the chapters on the pure theory of international trade and the passages devoted to the justification of free trade that furnish the most interesting basis for comment. The author first develops the older theory of comparative advantage in terms of labor cost, then proceeds by way of reciprocal demand to a partial equilibrium theory, and finally states the solution in terms of opportunity cost, in which the general equilibrium of all the forces of supply and demand is taken into account. But while thus ultimately abandoning the labor theory of value and its assumptions, Haberler yet concludes that "the doctrine of comparative advantage is perfectly valid," and reformulates this doctrine in terms of opportunity cost. In this restatement of the theory, the international movement of goods is determined, not by a comparative labor or real cost advantage, but by one stated in terms of exchange ratios or opportunity costs. "Each country would specialise in those branches of production in which it had a comparative advantage or, in other words, would produce those goods whose costs were relatively lowest."

Since in every concrete instance such a comparative advantage turns out to be an absolute advantage in terms of price, it would seem simpler to concentrate upon the forces determining money costs, dispensing with the attempt to clothe the older doctrine in a new garb. As Haberler himself puts

the matter when he is not immediately concerned with the task of establishing historical continuity, a country will export those commodities whose production requires the use of a relatively less valuable set of productive resources per marginal unit of output. With but a slight shift of emphasis, attention could be centered upon the really vital factors, the relative supplies of the productive agents. Ohlin's analysis, in providing this emphasis, has the advantage of showing with the utmost clarity that the theory of international trade is really only one aspect of general equilibrium theory. This important fact is obscured by Haberler's insistence upon the validity of a verbally correct but logically irrelevant version of the doctrine of comparative advantage.

A topic of further interest is the author's justification of the general policy of free trade. The opinion is widespread that such a policy requires the support of a real cost theory of value. If this be so, then certainly Haberler's analysis provides no basis for guidance. Now assuming the maximization of the national income as the primary goal of social economic policy, then if a given expenditure of real cost will result in a larger national income under free trade than under protection, the former course is justified. But may not the same conclusion be reached by means of reasoning in terms of opportunity cost? If a country can, under protection, produce a national income X, while under free trade it can, by devoting some additional portion of its productive factors to securing certain goods and services through international exchange, procure a national income $X + Y$, then surely the same justification for a policy of free trade exists. The most economical allocation of the productive factors is no monopoly of a real cost theory; it follows with equal logic from a general equilibrium analysis. A policy which, like protection, raises costs, is guilty, on the basis of the older approach, of bringing about a smaller return for a given outlay of effort; on the basis of the modern value theory it is guilty of causing a less productive allocation of the factors. The assumptions and the reasoning in the two cases are different. The conclusion is the same.

To put the matter more as Haberler might: protection, if effective, results in the use of a more valuable collection of productive factors per marginal unit of the protected commodity than is necessary under free trade. Adoption of the latter policy thus releases some portion of the valuable factors, insuring a more complete satisfaction of wants. Since maximization of the national income is assumed to be the desired goal, and since the difficulties inherent in treating of changes in real income are no more disturbing to this view than to the older one, what more in the way of justification of commercial policy could be desired? Haberler's proof is assuredly just as tenable as (though no more so than) that of writers who insist on the need for a real cost basis.

P. T. Ellsworth

University of Cincinnati

Aspects of the Theory of International Capital Movements. By CARL IVERSEN. (Copenhagen: Levin and Munksgaard. London: Oxford Univ. Press. 1935. Pp. 536.)

Mr. Iversen's book is primarily a prolonged discussion against the "classical" and in favor of the "modern" theory of international capital movements; the "classical" theory is that introduced by John Stuart Mill, and most prominently represented at present by Professor Taussig and his school, the "modern" theory associated with the names of Wicksell, Ohlin, (to mention only a few) and, on the borderline of compromise, Haberler and others.

The chief difference between the two theories—as has been brought out in the several controversies on the subject in the last decade and a half—seems to lie in the rôle assigned by the two schools to the "barter terms of trade changing in favor of the borrowing country." According to the "classical" theory this change is the very essence of the transfer as such, the indispensable mechanism through which the necessary transfer of goods actually takes place. According to the "modern" theory this change is only a possible—though some grant a highly probable—concomitant of the readjustment to the international shift in buying power, and this latter is the real essence of the capital transfer. In more general terms the "modern" theory claims to be more cognizant of the great complexity of the factors involved and more sceptical as to *a priori,* once-for-all general deductions. It is true, however, that the attempts to test the theory inductively through detailed case study originated primarily with the advocates of the "classical" school.

In Ohlin's writings the "modern" school has, in particular, brought out the relationship of the problems of international and interregional transactions, due to the bearing on the transfer issue of internally as well as internationally limited factor mobility, and has drawn attention to the functional relations between the mobility of capital and of labor. Mr. Iversen, standing completely on Ohlin's ground, advocates, and applies all these ideas. He lays the greatest and most persistent stress on the primary rôle of the changing demand schedules resulting from the shift of buying power which accrues from the lending to the borrowing country. He attacks the "classical" theory mainly for its failure to admit, or sufficiently to account for, this aspect.

The plan and strategy of his attack are far flung. In the first part (comprising about one-third of the book), he treats of the "Essentials of international capital movements," their nature, their causes, and effects. This part, in the opinion of the reviewer, is by far the weakest from the point of view of presentation; especially the chapters on "causes" and "effects" seem to suffer from an almost irritating lack of logical firmness in the arrangement. The second, main part deals with "Theories," and gives a critical review

"of a number of older and younger economists toward the deductive analysis of the problem." The first chapter discusses the doctrines of the two opposing schools regarding the problem in general: Thornton, Ricardo, the latter nineteenth century English writers, notably Alfred Marshall, and such contemporary economists as Taussig, Viner, Angell, A. Nielsen on the classical side, and Wicksell, Ohlin, R. Wilson, Yntema on the modern. Mr. Iversen acknowledges that he drew much of this material from Viner's *Canada's Balance of International Indebtedness,* and Angell's *Theory of International Prices*. Another chapter is devoted to the attitude of the two schools toward the reparation problem. Here is reviewed at some length the controversy between Keynes and Ohlin. Reference is also made to the opinions of Rueff and Haberler. A third chapter deals with the modifications of the transfer theories when applied to paper-standard countries.

Having thus brought into relief the points at issue between the views and deductions of the two schools, Mr. Iversen turns next to the question of "inductive verification": What do *facts* have to say as regards the *theories?* Initially he confesses his scepticism as to the possibility of gaining much by such inquiry, partly because of the difficulty of obtaining reliable data, and partly because of the great complexity of any concrete international financial situation. (The more fundamental difficulty brought out by R. Nurkse in his recent book on *International Capital Movements*—namely, of ordering the phenomena in an unambiguous way into antecedent causes and subsequent effects, Mr. Iversen does not mention at this point, though he discusses and approves of Nurkse's views at an earlier occasion.) As regards the inductive verification no new statistical data are introduced, but rather is it a critical review of the researches of other authors. With two exceptions (the studies of H. D. White of the French foreign investments, 1880-1913, and R. Wilson's and G. Wood's investigations of the Australian situation), all the material used is drawn from Taussig's *International Trade*.

The gist of Mr. Iversen's full length reproduction and discussion of the statistical material and its interpretation is that where the data prove to be inconclusive he seems satisfied. Inconclusiveness is to be expected because the complexity of the situation exceeds that allowed for in the premises of the theory. On the other hand, where the statistical data have been interpreted as bearing out the correctness of the theory, as in Viner's investigation of the Canadian foreign indebtedness and Taussig's study of the greenback period, Mr. Iversen finds fault with the material. He either doubts the relevancy of the index construction, or other statistical procedure, or decides that, what results there are, they agree more clearly with the "modern" than with the "classical" theory:

> While Viner does not succeed in demonstrating that shifts in international prices are a necessary part of the transfer mechanism, it appears from his analysis that *shifts in the relative prices of international and domestic commodities* play a

greater rôle. This is more in harmony, however, with the modern than with the classical transfer theory. To a large extent, the Canadian borrowers used their newly acquired buying power to demand domestic commodities the supply of which could not readily be augmented (p. 308; italics the author's).

Having thus demonstrated that "a satisfactory explanation of the mechanism of international capital movements is impossible as long as the direct or indirect effects of the transfer of monetary buying power are neglected," the author in the last part, called "Conclusions," (the last 50 of the 525 pages of text) develops what might be characterized as a theory. This is in the form of detailed hypothetical examples and illustrations of the transfer process. He first demonstrates how the transfer of buying power will or may affect the demand, either in different regions or different countries; how this changing demand indirectly influences the relative scarcity of the non-movable factor, supply, which in turn affects the price structure. He insists that whether the prices of international goods, as well as of domestic goods, will be affected will depend on the circumstances, in particular on whether the production of international goods requires the same or a different factor supply as that of the domestic goods. This question the author pursues further in a chapter on sectional price levels which leads him to the problem of the elasticity of supply and demand and methods of treating it.

One might almost wish that these more constructive investigations had been given the central place in Mr. Iversen's work rather than his efforts to annihilate the classical theory. For if the "stubborn and irreconcilable" facts of international transactions (to apply here Mr. Whitehead's vivid expression) are seemingly so indifferent to the theories (the one as well as the other)—and the author himself goes to particular length in establishing this—then why not be a little more pragmatically philosophical and leave alone, or at least not insist quite so strenuously on, the question of ultimate truth and falsehood? Would it not have been better more to enliven and enrich the picture by whatever new and interesting facts or ideas one has to contribute?

JOHN V. SPIELMANS

Washington, D.C.

Grundzüge der Theoretischen Nationalökonomie. By E. BARONE. 2nd ed. (Berlin: Dümmler. 1935. Pp. 279. RM. 4.80.)

The appearance of the second edition of the German translation of Barone's *Principi di Economia Politica* offers the opportunity to repeat Morgenstern's hope, expressed when he reviewed the first edition of the German translation (*Am. Econ. Rev.*, Sept., 1928), that the translation of the book into a more widely read language would increase its chance of being read in American universities. By way of encouragement to prospective readers it might be mentioned that the very fact of its Italian origin frees it from

some of the peculiar difficulties of German syntax and idiom. It might also be remarked that the presentation is non-mathematical in character, which may seem odd since Barone is always placed in the mathematical school and since the *Principi* is his only book on general economic theory, but which only goes to show that his reputation is not founded on this book, but instead on his articles in the *Giornale degli Economisti.* The *Principi* is not mathematical, one should say, except in so far as graphs, familiar to any reader of economic theory, are used. These graphs, averaging about one to every four pages, are the media of expression to which Barone felt compelled by a "didactic necessity."

Of course, the years since 1908 when the book first appeared, bringing development in the study of economics and change in the world, frequently altered the relative importance of the several sections of the book, while conferring on the whole an increasing historical importance as a work of one of the greatest thinkers in Italian economics. Thus in the first German translation (1927), Schumpeter, in his introduction, and Hans Staehle, the translator, in an appendix, while giving the book its deserved praise, were finding it necessary to make apologies for some parts, especially those on money and crises. On the other hand, the book is consonant with current interest in theory since it gives more pages to pricing under monopoly and cartels than it does to pricing under perfect competition. In the section on distribution there is considerable attention given to the application of the theory to problems which have faded in significance since 1908. The other one of the six parts into which the book is divided treats graphically the classical theory of foreign trade.

Aside from the particular content of the theory the reader should be delighted by Barone's sensitivity to the circumscription under which he analyzed. He realized that he was presenting a short, elementary treatment. Under this constraint he wished preëminently to preserve clarity and simplicity, but he knew that to do so he must abandon all pretense to a full explanation of the world's complexities. Reminders, such as "Dabei müssen wir wohl oder übel etwas von der Exaktheit der Einfachheit und der Klarheit opfern" (p. 44), are repeated again and again.

One might wish to have the *Principi* translated into English. Yet if there were to be only one book of Barone's in English, it might be wiser to prefer the translation of a selection from his more specialized articles.

R. S. Howey

University of Kansas

Lezioni di Economia Politica. By Francesco Ferrara. Edited by Gilda De Mauro-Tesoro. Vols. I and II. (Bologna: Nicola Zanichelli. 1935. Pp. ciii, 803; 793. L. 40, each vol.)

Francesco Ferrara (1810-1900), the leading spirit in the revival of Italian economic studies in the latter part of the nineteenth century, is best known for his historical and critical prefaces[1] to the *Biblioteca dell' Economista*,[2] which in presenting translations of the important writings of the preceding years gave greater currency to the ideas of the classicists and stimulated critical discussion of theories and problems. Ferrara, however, did not formulate his ideas in a general treatise, so that the present publication, from the manuscripts of his lectures from 1849 to 1852 and 1872-73, is of considerable value for doctrinal history. The editorial task has been ably done. The lectures have been left intact and various gaps have been filled from published student reports, but these places have been carefully indicated. The whole has been rounded by bibliographies, cross references, explanatory notes, and an essay in appreciation of Ferrara's life and work.

Ferrara has usually been given only passing attention as an "optimist" influenced by Say, Carey, and Bastiat; but his theories of value and distribution should be noticed, partly for their influence on later writers,[3] but also as an interesting attempt to solve these problems in the period intervening between the greater classicists and the syntheses of the Austrians, Walras and Marshall. Utility is regarded as the primary cause of value. Exchange takes place when the utility of the commodity received is greater than or equal to the utility of the commodity given, and these utilities depend on subjective valuations and relative scarcity. To producers, the utility of goods is measured by the cost of reproducing them, or when this is physically impossible, by the cost of goods which would yield an equivalent satisfaction. Thus, equilibrium is ordinarily established by an equality of utility and cost; but Ferrara's theory lacks the precision which the "law of diminishing utility" gave to the formulations of other writers.

Ferrara's attack on the Ricardian distribution theory is a composite of Carey, Richard Jones, and John Rae. He admits the law of diminishing returns for each factor, but emphasizes secular increasing returns. In fact, he argues, diminishing returns and the Malthusian principle provide the strongest incentives to technical advance. The distributive shares are explained in terms of the productivity of the factors; their mutual dependence is analyzed in terms of substitution and opportunity cost. Rent does not differ essentially from interest and profits, or indeed from wages, since there are differential payments for some units of each factor. Profits are a residual return to the entrepreneur's capital. Interest is a share derived from gross profits, representing a payment for the period of waiting and the risk incurred between the time of the loan and its eventual repayment from the

[1] Reprinted as *Esame Critico di Economisti e Dottrine Economiche del Secolo XVIII e Prima Metà del Secolo XIX*, Turin, Unione Tip. Ed., 2 vols., 1891.

[2] Series I and II, 21 vols., 1850-1870.

[3] Pareto, Pantaleoni, and others acknowledge their debt to him.

product made with its aid. Simultaneous distribution is suggested but not clearly formulated in the absence of the concepts of margin and functional relationship.

A large part of the lectures deals with questions of policy. Ferrara wished to confine government to a narrower sphere than Adam Smith. He had a Spencerian belief in the sanctity of private property, the beneficence of individualism and the meliorative trend of capitalism, and he vigorously attacked socialist doctrines. He favored private operation of the post-office and telegraph, and opposed extensive public works, which often sacrificed utility for display. He even opposed the establishment of a monetary standard by government, which should merely certify the weight and fineness of coin, leaving the choice of metals to private contract. He opposed progressive taxation and proposed a single tax on income as a substitute for the then existing regressive taxes. In parliament and press he attacked all forms of monopoly, in education and religion as well as in industry. His uncompromising stand for academic freedom, free trade, laissez-faire, federalism, and direct taxation cost him his academic post and doomed his finance projects to failure. In the embittered isolation of his old age, he was fated to see a unified Italy adopt the policies which he had so incisively attacked—protectionism, bureaucratic centralization, interventionism, and repression. One may indeed wonder why his writings are now being produced under official auspices.

HENRY J. BITTERMANN

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NEW BOOKS

BAB, H. J. G. *Ist das Sparen Krisenursache? Die Konjunktur-Theorie von W. T. Foster und W. Catchings.* (Vienna: Oskar Andreas. 1936. Pp. 42.)

BROWN, E. H. P. *The framework of the pricing system.* (London: Chapman and Hall. 1936. Pp. 321. 10s. 6d.)

BROWN, H. G. *Economic science and the common welfare.* 6th ed. rev. (Columbia, Mo.: Lucas. 1936. Pp. xvii, 472. $2.75.)

CLARK, J. M. *Preface to social economics: essays on economic theory and social problems.* Compiled by MOSES ABRAMOVITZ and ELI GINZBERG. (New York: Farrar and Rinehart. 1936. Pp. xxi, 435.)

CRAWFORD, C. *Re-stating economic theory.* (Paola, Kansas: Author, 310 S. Silver St. 1936. Pp. 128. $1.00.)

FAIRCHILD, F. R., FURNISS, E. S. and BUCK, N. S. *Elementary economics.* Vols. I and II. 3rd ed. (New York: Macmillan. 1936. Pp. xix, 717; xiii, 685. $2.50, each vol.)

The third edition of this text retains the basic plan and philosophy of preceding editions. Changes are numerous and important, but are for the most part confined to matters of arrangement, amplification and refinement, and do not include major alterations in the general nature of subject-matter or fundamental changes in approach or emphasis.

The numerous changes in arrangement improve the volumes. The chapters on value have again profited by a thorough overhauling which has resulted

in improved arrangement, amplification of illustration, and refinement of statement. Monopoly value is given somewhat greater attention than in former editions. Entirely new is the treatment of price determination under conditions of "imperfect competition." This long neglected field is skillfully described, and price-determining forces are, on the whole, well analyzed. Unfortunately one or two of the diagrams that accompany this discussion seem unconvincing and are apt to confuse more than to enlighten. Despite this, the discussion of price determination under conditions of "imperfect competition" is a welcome addition to this part of the book.

Although the general nature of subject-matter remains very similar to that of former editions, the authors have not been unmindful of the unusual developments in economic affairs since the last revision in 1930. Generally these have been neatly included in appropriate chapters that appeared in former editions. Where that procedure was impossible new chapters have been written. Of such "The farm problem" and "Regulation of competitive industry" are notable because they form the possible exceptions to the rule that no fundamental change in subject-matter appears in this edition. The chapters on "Fiat money systems," "American banking and banking legislation in the depression of 1929-1936" and "Contemporary problems of foreign exchange," although new and complete, simply amplify and bring up to date sections of the older editions. In these new chapters, as elsewhere in the book, the discussion of recent policies and legislation is commendably objective. Some may take exception to this statement as they read the criticism of the philosophy of "parity prices" so prominent in the AAA. To the reviewer this seems to indicate some misapprehension of what was in the minds of the chief architects of that act rather than prejudice on the part of the authors. All things considered, the second revision has greatly enhanced the usefulness of a text already well established in its field.

Alvin S. Tostlebe

Garvan, F. P. *Scientific method of thought in our national problems.* Deserted village no. 10. (New York: Chemical Foundation. 1936. Pp. 79.)

Address delivered at the Second Dearborn Conference of representatives of agriculture, industry and science, May 13, 1936.

Gonnard, R. *Histoire des doctrines monétaires dan ses rapports avec l'histoire des monnaies.* Tome II. *Du XVII^e^ siècle à 1914.* (Paris: Sirey. 1936. Pp. 441. 50 fr.)

At the end of the first volume of his monetary history (noted in the *Am. Econ. Rev.,* June, 1936, p. 349), Professor Gonnard is engaged in introducing the writers of the mercantilist period. In this much larger book he completes that task and then describes some of the significant near-recent speculation in the field of money. The chapters on the long but loosely defined era of mercantilism include the eighteenth-century members of that group and their contemporary opponents, Law and his adversaries, the physiocrats and lastly Adam Smith. The modern era, as summarized in the second half of the work, is restricted to the monetary doctrines of leaders in the French Revolution, the debates that accompanied the entrenchment of the gold standard in England, the disappointments of bimetallism, and the quarrel between the advocates of the currency and the banking principle of note issue. The parade of opinions is marshalled along a fairly well detailed route of monetary history. A clear style and sympathetic treatment have the effect of showing nearly every man considered in the best possible light; the small amount of critical

comment does little to change the impression (probably unintended) that most writers who express themselves on money are scientific.

However, a two-volume synopsis of approximately 23 centuries of doctrine proved more difficult than Professor Gonnard had originally thought it; for he abandoned his original plan of continuing to the present in favor of stopping at 1914—to journey onward later in an additional volume. And he did not arrive at 1914 without faltering. The detailed record of mercantilism, which occupies half of each volume, is followed by a description of later thought that seems cursory by comparison. The nineteenth century is barely traversed. Carey is the only American writer to receive adequate attention. German contributors are mentioned infrequently. The importance of bank notes is recognized but deposit credit is ignored, in spite of the fact that long before 1914 the latter had, as money or money substitute, influenced both theory and practice.

A praiseworthy unity is attained throughout the work by tracing the indecisive conflict of the nominalist and the metallist conception of money. The ideas of the more influential thinkers are reduced to one of these common theoretical denominators to discover the practical consequences of maintaining each point of view. The author's judgment is that in the realm of monetary statesmanship the nominalist position is mischievous. Other very cautious conclusions are to the effect that the quantity theory is a useful approximation, bimetallism is unworkable, and international monetary unions are not likely to succeed.

K. M. Arndt

Gras, E. C. *Descriptive economics for beginners.* (New York: Holt. 1936. Pp. x, 555. $1.60.)

Mrs. Gras's book follows the traditional scheme for secondary schools, with much history and descriptive material, and many illustrations. The point of view is clearly indicated in the preface: "Never has it been so obvious that our civilization depends upon our business prosperity. Well-meaning but misguided and ignorant leaders may endanger the very foundation of our national existence and our world culture"—the "well-meaning but misguided and ignorant leaders" being apparently such men as President Roosevelt and the New Dealers. There are interesting descriptions of the wonders of the industrial world, with eulogistic stories of the lives of such great and good business men as Ford, Astor, Gary and Rockefeller—stories that ought to inspire ambitious boys to get up early in the morning, and save their earnings. Thanks largely to these great business leaders, American civilization has attained a very high level indeed.

John Ise

Graziadei, A. *La théorie de la valeur (critique aux doctrines de Marx).* (Paris: Rieder. 1935. Pp. 110. 15 fr.)

In the preface of *Le Capital et l'Intérêt* (reviewed in the December, 1935, issue of this journal) the author announced his intention of recapitulating, and completing in a few volumes, studies published at various dates since 1923. Two of the proposed works are now awaiting more favorable conditions for publication. The present booklet is introductory to one of them and gives a full table of contents of both in an appendix. It is a criticism of Marx based on the idea that the author of *Das Kapital* has taken a wrong approach to his

problem. The totality of industries should first be considered, viewing its output as physical products or as "values in use" and explaining its division between labor and capital on institutional grounds. The explanation of surplus value thus reached should then be coördinated with a theory of exchange value as it appears in the particular enterprises. Marx's error, the author holds, lay in starting with the latter and seeking for the origin and measure of surplus value where it cannot be found.

G. A. K.

Hook, S. *From Hegel to Marx: studies in the intellectual development of Karl Marx.* (New York: Reynal and Hitchcock. 1936. Pp. 335. $4.)

Jackson, T. A. *Dialectics: the logic of Marxism.* (London: Lawrence and Wishart. 1936. Pp. 647. 10s. 6d.)

Löwe, A. *Economics and sociology: a plea for coöperation in the social sciences.* (New York: Adelphi. London: Allen and Unwin. 1935. Pp. 156. $2.)

This volume presents in revised and extended form the three lectures given by Dr. Löwe at the London School of Economics in 1935. While many of the arguments advanced in favor of coöperation might apply to any of the social sciences, the author's special concern is to bring about a closer working relationship between economics and sociology. It is urged that economics, whether pure or applied, must constantly take account of sociological data and processes. Sociology, on the other hand, deals with a society that is always deeply influenced by economic forces and institutions. "The more nature has become socialized, the more society has become naturalized" (page 153). Thus, integration and synthesis have become essential, and this necessitates a closer personal contact and coöperation on the part of the specialists in both fields.

As regards future social science relationships, the author predicts that although the economic structure of society will retain its importance, the major emphasis will shift from acquisitive to administrative activities. As a result of this change of emphasis, political science may some day come to occupy the key position among the social sciences.

J. E. Moffat

Nogaro, B. *Eléments d'économie politique.* 4th ed. (Paris: Lib. Gén. de Droit et de Jurisprudence. 1926. Pp. 332.)

Simpson, H. D. *Purchasing power and prosperity: an essay in the economics of recovery.* (Chicago: Foundation Press. 1936. Pp. ix, 149.)

This interesting volume presents a telling blow to the popular view that recovery can be secured by the "creation of purchasing power" through the medium of huge public expenditures. Popularly, purchasing power is considered to be a "quantity" of something which needs to be put into the hands of the masses. However, it is really "a relationship" of things. "Its essence consists in having something to exchange, under conditions which make exchange possible." Since public expenditure does not restore the conditions which promote exchange, Professor Simpson rightly reasons that government spending may afford relief but not recovery.

The maladjustments, or clogs on the emergence of purchasing power, include: (1) disparities in the prices of different commodities, (2) disparities in the incomes of various groups and the prices of things they buy, (3) disparities in prices and costs, resulting from legal, monopolistic, or trade barriers, (4) the existence of such uncertainties that people are afraid to make

future commitments, and (5) the widespread existence of frozen assets. In the past, Professor Simpson states, such obstacles have been removed by the agencies of *deflation* and *business enterprise.* In the present depression, however, the government has favored inflation and public expenditure which can only be ineffective, for they fail to correct price disparities. Professor Simpson asks, "Why does *deflation* not operate in the same way?" It is admitted that sometimes deflation forces down the less entrenched groups "most violently." However, "eventually" they all "capitulate to just one thing—namely, the necessity of doing business . . . they must eventually come down to the common level . . . some one else will do the business if they don't."

Here, one must observe that there is nothing in history or theory which indicates that the principal price disparities occasioned by monopoly and tariff protection can safely be left alone to correct themselves.

To aid the release of purchasing power, Professor Simpson suggests that the government might encourage a system of mortgage banks, proceed with the re-allocation of submarginal areas, extend reciprocal tariff reductions, and face "sooner or later" monopolistic and racketeering restraints "and do some frank talking about them." In the discussion of monopoly, no mention is made of the widespread price inflexibilities occasioned by the basing point plan and other forms of industrial price discrimination which should be faced *at once* with a vigorous enforcement of our anti-trust laws.

Another measure calls for the establishment of state industry to give work to any remnant of unemployment. This state industry could include, if necessary, the production of "the actual needs of the people of the United States"; however, it must not pay "standard wages," for that would "pull people out of private employment." One wonders how goods produced for general need could be distributed without competition "to private employment."

Professor Simpson performs a real service in calling attention to the inadequacy of public expenditure as a recovery measure. However, the measures which he suggests to correct the "disparities" lack careful analysis and a realization of the need for early action.

VERNON A. MUND

SMITH, A. H. *Economics: an introduction to fundamental problems.* (New York: McGraw-Hill. 1936. Pp. xvi, 544. $1.60.)

First published in 1934, with additions explaining more recent problems. Written for secondary schools. Author is teacher in High School of Commerce, Springfield, Massachusetts.

ZWEIG, F. *Economics and technology.* (London: P. S. King. 1936. Pp. 252. 10s. 6d.)

Economic History and Geography

Southern Regions of the United States. By HOWARD W. ODUM. (Chapel Hill: Univ. of North Carolina Press. 1936. Pp. xi, 664. $4.00.)

A prodigious amount of work has gone into the making of this inventory of southern regions, both in themselves and as compared with the other four designated regions of the United States. The present volume places chief emphasis upon the Southeast, embracing the states of Virginia, Ken-

tucky, North and South Carolina, Tennessee, Georgia, Florida, Alabama, and Mississippi. With the object that of national planning, the effort here is to provide the materials for regional planning as necessary means toward the larger purpose. The whole tendency of the study is away from in-growing localism. Integration—always, however, with an eye to different regional needs and aptitudes—is the guide which has been adopted.

The first service has been to re-define American regions so as to secure the greatest homogeneity economically, geographically, and culturally without creating an unworkable number of subdivisions. The reasons given for settling upon boundary lines seem well taken.

The book is a great stride forward toward an attack upon the problem of Southern deficiencies, because to a remarkable degree it supplies objective criteria for judgment and action. A large number of varied indices has been employed to provide a stock-taking of the Southeast. Some of these, to the unacquainted, may seem trivial, but they are really indicative for the purpose in hand. The formidable array of maps, charts, and tables gives such a picture of Southern regions as has never before been available. The calculations, not conforming to census categories, involved a huge labor, not to speak of the ingenuity shown in the choice of criteria.

The trouble with the book is its very inclusiveness. It presents work-materials for analysis, without getting much beyond the collection of data. Of course Professor Odum, with his unique experience and equipment, gives expression to many general views, as that the civilization of the Southeast is that of an "arrested frontier," and is immature rather than decadent. Still, it is difficult in the present work to see the forest for the trees.

Many will accord with Professor Odum's preference for a gradual reshaping of American social institutions and practice. But this study, in its emphasis upon circumspection, its imperfect sympathy for central responsibility and direction, does not take sufficient account of the limitations upon regional planning. It is fatally superficial in not recognizing the underlying defects which make maximum use of physical and human resources impossible at present or in the future unless the basic embarrassments are removed. What will the cotton picker, which now seems to be a proved success, do to the economy of the Southeast and of the country? How may such a technological innovation be tolerated, not to say employed, in an economic system which is grounded in scarcity? This problem, which constitutes "the impending crisis of the South," is scarcely broached. Further, one would say that the federal reserve system combined regional planning with national integration, but, functioning within the capitalist system, it wound up after 20 years of contrivance with every bank in the United States closed.

The next task will be that of supplying a pattern where there is at present a jumble of parts of a jig-saw puzzle subjected only to preliminary arrange-

ment. The pattern cannot be developed without a theory of social reconstruction very different from the elaborate opportunism which seems to be in the author's mind.

BROADUS MITCHELL

Johns Hopkins University

The Development of American Business and Banking Thought, 1913-1936. By CHARLES C. CHAPMAN. (New York: Longmans Green. 1936. Pp. xiii, 351. $2.50.)

This is an historical study of business attitudes. The author is convinced that "there has been a radical change in the attitude of American business during the past twenty years" (p. vii), and he undertakes "to measure the extent of this change, to analyze its nature, to isolate the elements which brought it about, and to show how it came to pass" (p. vii). Part 1 surveys the changes in American business and industrial philosophy; Part 2 surveys the development of a central banking philosophy; and Part 3 is devoted to an analysis of the general economic situation at the dawn of 1936. Most of the factual materials with respect to business, banking, labor, and governmental policies are taken from secondary sources, and the author devotes his efforts to an interpretation of these facts from the point of view of the light which they shed on business attitudes.

The conclusions of the author with respect to the trend of business attitudes during the period are summarized in chapter 11 entitled "From new democracy to New Deal." He finds that although to all exterior appearances the spirit of "industrial absolutism" reigned supreme during the years immediately preceding 1933, actually the process of education through the Federal Trade Commission, the Chamber of Commerce of the United States, the American Federation of Labor, trade associations, and company unions had accomplished much in the direction of fostering the spirit of "industrial democracy." In attempting to measure the trend of business attitudes the author is faced with a problem analogous to that faced by the statistician when he attempts to separate long-run trends from periodic fluctuations. Some may question whether it is proper to use 1913 and 1933 as the points of observation for the measurement of the trend of business attitudes. In the opinion of the reviewer, "cyclical fluctuations" in business attitudes might well have received more attention in the final appraisal of the trend from 1913 to 1933.

Part 2, which deals with the development of a central banking philosophy, summarizes in an interesting manner the principal facts with respect to the development of federal reserve policy during the period from 1913 through 1935, and passes in review the principal legislative enactments and administrative proclamations relating to monetary and banking matters.

Chapter 18, entitled "Banking developments under the New Deal," and chapter 20, entitled "The Banking act of 1935," should prove especially useful to teachers as a brief survey of recent developments in the banking field. The entire section devoted to the development of a central banking philosophy suffers somewhat, however, from the necessarily brief treatment of certain topics. Without a fairly good general knowledge of the federal reserve system, the general reader may be unable to follow the discussion at certain points.

Part 3, which discusses "the situation at the dawn of 1936," brings the main threads of the discussion in the earlier part of the book nearer to date and incorporates the views of the author on many controversial questions. Special attention is given to recent Supreme Court decisions, particularly to the invalidation of the A.A.A. This section helps to round out the book for use as a text or collateral readings in college courses dealing with current economic problems.

In this book, as in any study of this kind, the interpretations placed upon actual happenings necessarily reflect the underlying philosophy of the author. The discussion is punctuated at numerous points with sweeping generalizations on questions on which there are honest differences of opinion. For example: "Woodrow Wilson had hoped by the institution of the federal reserve system to put an end to the 'money trust.' In this he was deceived. The federal reserve system, ironically, only gave the bankers a new instrument of control" (p. 113). Also, "One thing only seems to be lacking in the development of high business activity, and that is widespread purchasing power. Give the great masses of the people power to purchase, and prosperity is assured" (p. 161). However, for readers who are able and willing to sort out the facts from the opinions of the author, the inclusion of such remarks does not detract from the merits of the book.

DONALD C. HORTON

Washington, D.C.

The Caribbean since 1900. By CHESTER LLOYD JONES. (New York: Prentice-Hall. 1936. Pp. xi, 511. $5.00.)

This is the third comprehensive book, in addition to other writings, which the author has published during the last 20 years upon Caribbean problems. He is a leading specialist upon that area. Though the present volume would command attention on the reputation of its predecessors, Professor Jones has not presumed upon that possibility to relax his labors. Every chapter shows evidence of painstaking preparation in a field he has not so fully traversed before. For he passes in this study from topics predominantly economic to those of foreign policy. Statements are documented meticulously and an adequate bibliography leaves the reader at no loss for sources.

Either one or two chapters, as the subject demands, are devoted to reviewing the history and recent foreign relations, principally with the United States, of each of the eleven Caribbean countries, as well as of neighboring European possessions and our own dependencies. Two themes dominate the discussion, debts and intervention. Since 1900 American troops have been landed in six of these republics and in four of them they have maintained a government in power. Such operations have created domestic issues in our own country. At times our people have been acutely Caribbean-conscious. Cuba, Haiti, the Dominican Republic, Panama and Nicaragua have furnished the big headlines in our newspapers. Our relations with transatlantic governments have not infrequently had their focus in this region. No part of the world outside our own borders has so continuously been a major interest in our foreign policy.

Critical inspection might reveal details of treatment upon subjects of such recent controversy which are open to argument. But if so, they are rare. One or two factual slips occur, such as placing the Mona Passage between Haiti and Cuba. These points of query do not reflect upon the author's fairness and competence, however, nor do they impair the value of his conclusions. The latter sum up in generalizations hardly open to question. By a process of trial and error in its contacts with its Latin neighbors our government has learned to understand them better than it did a generation ago. This improved understanding expresses itself among other things in a certain considerateness in our dealings with them which lessens friction. The Caribbean nations are progressing both economically and politically. Since the opening of the century our trade with them has multiplied more than sixfold and our investments in their territories have increased fully eightfold. Such facts are an index of forces which give stability to governments and make them more orderly neighbors. Slowly, and possibly with occasional relapses into ancient error, we and they are evolving canons of conduct toward each other that augur well for the future placidity of our American Mediterranean civilization.

VICTOR S. CLARK

British Economic Foreign Policy. By J. HENRY RICHARDSON. (New York: Macmillan. 1936. Pp. 250. $3.00.)

This is an important work. Professor Richardson adequately describes the recent revolutionary changes in the economic policy of his country. Furthermore, he definitely refutes the opinion, so often expressed abroad, that his country has achieved a considerable measure of economic recovery without government intervention.

While 1931 may be considered as marking the actual turning-point in British economic policy, the stage for such an event was being prepared as far back as the World War. That war, among other things, created an

immense amount of world sectionalism, as well as making imports difficult to obtain. The resultant trend toward economic self-sufficiency brought about a considerable degree of economic organization and control by the government. For the time being, at least, state intervention had ended Cobdenism. In the controversy over policy which developed in the post-war period, the free-traders won out. Their victory was, however, short-lived. Unemployment grew steadily; economic nationalism continued abroad; foreign competition increased in its severity; and, while world trade grew in size, Britain's share grew increasingly smaller. A world depression climaxed this unsatisfactory trend and, striking Britain a heavy blow, definitely ended the somewhat diluted Cobdenism which had prevailed since the war.

"The financial crisis of 1931 marked a turning-point in British economic foreign policy," writes Professor Richardson. Britain left the gold standard for a controlled currency; her new tariff policy resulted in an imposing array of tariffs, subsidies, levies, marketing boards and other devices to protect and foster her trade and industry; she and her Dominions enacted a comprehensive series of preferential trade agreements; lastly, government intervention in agriculture has been carried so far that it may well be considered as the most revolutionary element in the new policy. It is not surprising that the author summarized this development as follows: "The departure from traditional policy compares in magnitude with, though [it is] much less discussed than, the 'New Deal' of the United States." The general aim of the entire scheme is to achieve a greater degree of British and Empire self-sufficiency and thus become more independent of a politically insecure world.

While Professor Richardson admits that the present policy of the government has unquestionably aided Britain in her recovery to date, he points out that there are definite limits beyond which that policy cannot be applied without incurring serious economic costs, as well as the animosity of those foreign countries adversely affected by the policy. Furthermore, he maintains that Britain has already received the total probable benefits which can be derived from pursuing her present course and that further recovery will depend upon an increase in her trade with foreign countries instead of a decrease, for which her present plan provides. Lastly, he concludes that "the foundations upon which a workable laissez-faire system could be built no longer exist" and that some sort of interventionist policy must be continued in the future.

It is at this point that the author's position raises some doubt in the reviewer's mind. Professor Richardson admits the necessity of continued intervention, and he considers central planning essential for the future; but he would so restrict the government in those activities that it is very doubtful as to whether the intervention he would condone would be really worth while in the dynamic world which confronts Britain today. Economic plan-

ning raises problems of fundamental political, social and economic significance, particularly so in the case of a country whose economic life is so bound up with that of other countries that independent action is hardly conceivable. The author's suggested stabilized international monetary system and his highly diluted form of governmental control (largely reserved for "periods of crises and transition") seem more than a trifle inadequate for the problems he so clearly depicts. But despite this weakness, Professor Richardson's treatise is one of the most enlightening and thought-provoking that the reviewer has read in years.

LORNE T. MORGAN

University of Toronto

Eastern Industrialization and Its Effect on the West, with Special Reference to Great Britain and Japan. By G. F. HUBBARD, assisted by DENZIL BARING. (New York: Oxford Univ. Press. 1936. Pp. xxii, 395. $7.00.)

The Royal Institute of Foreign Affairs contributes to the 1936 conference of the Institute of Pacific Relations a compilation of several brief studies by different writers, but a fair degree of unity is more or less maintained throughout the work. It begins with a short historical survey of the industrial development of Japan, China, and India, with the most emphasis on that of the first named country. Students familiar with the subject find nothing new in this survey, since it is largely based on written sources. This is followed by an analytical discussion of the industrial structures of these countries with a view of pointing out the competitive aspect of their industrialization. The point of view is essentially political, but free from emotionalism on the whole.

The foreign cotton mills in China is one of the interesting topics. Comparing the relative efficiency of the Chinese mills with the Japanese mills in China, the author states: "The Chinese mills work as a rule two 11-hour shifts, the Japanese mills two shifts of 8½ to 10 hours. In spite of the longer hours, average output per worker and per spindle is lowest in the Chinese mills. . . ." He then quotes from a Chinese student as saying, "The spindle output is 15 per cent better in the Japanese mills both in spinning and weaving, while the individual output is 21 per cent higher, the difference being mainly due to better machinery and organization" (p. 227). It is a matter of wonder how the British mills in China function in these respects, but we are given no information. Out of 371 pages of the book 306 are devoted to the study, of which 180 pages are consumed for Japan, 57 pages for China and 66 pages for India. The remainder is taken up by a discussion of the industry and trade of Great Britain and the Commonwealth.

Britain's unique position throughout the industrial world during the nineteenth century is clearly pictured. For example, "the growth of the Lanca-

shire power looms robbed India more than a century ago of her traditional export trade in cotton yarn and cloth, in spite of a difference in the price of labour exceeding that of today" (p. 307).

But "with the advent of the Great War, profoundly disturbing the whole economic structure and quickening adverse forces implicit indeed but felt before, a new era began for the British exporting industries . . ." (p. 313). Viewing the relative industrial position of Britain and Japan in recent years, the author writes: "The essential factor conditioning Japanese development is a rapidly growing population, to support which it is necessary to develop an export trade in manufactures. . . . Although the population of Great Britain, unlike that of Japan, is now relatively stationary, the vital problem of 'subsistence' exists for her also. She must strive to maintain her population at its accustomed standard and this, in the opinion of most economists, can only be done by means of an active export trade enabling her to secure the necessary food and raw materials" (*ibid.*). In this Britain suffers from Japanese competition. Thus she faces many difficulties to be overcome and many problems to be solved in order that she may secure what she needs. Nevertheless, the author concludes, "to maintain that the British economy has failed to respond to the stimulus of changed conditions is certainly unwarrantable" (p. 344). The hope is entertained, too, that the Commonwealths will maintain their traditional trade relations with Britain although they may profit temporarily by trading with Japan. The British Empire shall continue as "an economic unit."

The various issues raised in the foregoing pages are taken up for discussion by Professor Gregory. To an economist this concluding chapter is most interesting. The following quotation will indicate his point of view:

> Whatever the causal sequence may be, it is clear that we should view the Eastern scene in the light of our own historical experience and recognize that the ultimate condition for a rise in the Eastern standard of life is such a balance between population growth and technical progress as to permit of a surplus which will raise the *per capita* welfare of Eastern populations. The attainment of this surplus is theoretically possible by a drastic decline of population: given the population situation, it is only possible to solve it by means of industrialization. Nor is there anything of a sinister or pessimistic nature in this conclusion as such. For a growing population with growing resources represents a growing market: in fact, the East is reproducing the conditions which made for the most rapid economic growth in other parts of the world in a not very remote past (pp. 364-5).

The book is well written and readable. It is provocative and stimulating.

YAMATO ICHIHASHI

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NEW BOOKS

BEMIS, S. F. *A diplomatic history of the United States.* (New York: Holt. 1936. Pp. xii, 881. $4.)

BIRNIE, A. *An economic history of the British Isles.* (New York: Crofts. 1936. Pp. ix, 391. $3.)

BOWERS, C. G. *Jefferson in power: the death struggle of the Federalists.* (Boston: Houghton Mifflin. 1936. Pp. 557. $3.75.)

CARLSON, F. A. *Geography of Latin America.* (New York: Prentice-Hall. 1936. Pp. xxii, 642. School, $4; business, $5.)

CRITTENDEN, C. C. *The commerce of North Carolina, 1763-1789.* (New Haven: Yale Univ. Press. 1936. Pp. x, 196. $2.50.)

North Carolina has long borne the reputation of being somewhat different from the typical Southern state, and Dr. Crittenden in his study of those years of transition between the end of the French and Indian War and the establishment of the United States under the Constitution, does much to substantiate this point of view. He finds the state in its economic life far more like Pennsylvania than South Carolina. In many other particulars he shows that the state's historical traditions are at variance with the facts. Contrary to the old accepted viewpoints, North Carolina had a considerable ocean-going trade, of which a very substantial part did not pass through South Carolina and Virginia ports; much of this trade was not in small vessels run by New Englanders; and all of it was not coastal or with the West Indies. North Carolina did not enter the Revolution because of troublesome trade regulations by the British. Such in general is the tenor of this book, into the making of which went a great many facts well arranged and well interpreted. It is well written; it is based almost entirely on original sources; and it is scholarly throughout.

E. MERTON COULTER

CRUMP, W. B. and GHORBAL, G. *History of the Huddersfield woollen industry.* (Huddersfield: Tolson Memorial Museum. 1935. Pp. 132. 2s. 6d.)

This is a brief but interesting history of the chief industry of the Huddersfield district of Yorkshire, so well known to the economic historian. The geological background was favorable to the woolen industry because of the stony, infertile soil that made agriculture difficult and because of the soft water so necessary to the industry. Local wool and available labor were the other indispensable, ingredients. The well known stages of industrial evolution are exemplified, particularly the domestic system, which, incidentally, is said to have expired only in 1912. Not a little information is provided concerning the subject of manufacturing technique. The book is well written and numerous illustrations enhance the effectiveness of the work.

It is inherent in a local study that little attention be given to the world beyond. And yet it was the wider market that explains the changes in industry. The purpose of the volume, like that of several in the series, is to promote the development of the local museum. This purpose seems to be fulfilled.

N. S. B. G.

DARBY, H. C., editor. *An historical geography of England before A.D. 1800.* (New York: Macmillan. Cambridge: University Press. 1936. Pp. xii, 566. $7.)

DAVID, H. *The history of the Haymarket affair: a study in the American social-revolutionary and labor movements.* (New York: Farrar and Rinehart. 1936. Pp. xii, 579. $4.)

DE KOCK, M. H. *The economic development of South Africa.* (London: P. S. King. 1936. Pp. xii, 131. 7s. 6d.)

Contains useful maps and a chapter on the expansion of the gold-mining industry.

ERMARTH, F. *Der New Deal: Wirtschaft und Verfassung in U.S.A.* (Berlin: Weidmannsche Buchhundlung. 1936. Pp. x, 33.)

EVANS, A., editor. *Francesco Balducci Pegolotti: la pratica della mercatura.* (Cambridge: Mediaeval Acad. of America. 1936. Pp. liv, 443. $7.)

FLENLEY, R. and WEECH, W. N. *World history: the growth of western civilization.* (New York: Dutton. 1936. Pp. xix, 757. $3.50.)

FOX, R. *France faces the future.* (New York: Internat. Pubs. 1936. Pp. 154. $1.25.)

This work was written primarily in order that English-speaking readers may come to understand the rise of the People's Front, the new political, anti-fascist alignment in France. It covers on a smaller scale more or less the same ground as M. Thorez's book, *France Today and the People's Front.* It is less systematic and scientific in the marshalling of the social facts that throw light upon the development of French capitalism, its crisis and the political struggle, under the aegis of fascist groups, with the laboring masses and the middle classes. It is informative, however, for the general reader.

HERMAN HAUSHEER

GAMBLE, A. D., MCGOWAN, R. A. and THE LATIN AMERICAN COMMITTEE. *An introduction to Mexico.* (Washington: Catholic Assoc. for Internat. Peace. 1936. Pp. 48. 10c.)

HERRMANN, A. *Historical and commercial atlas of China.* Harvard-Yenching Inst. monog. ser. vol. i. (Cambridge: Harvard Univ. Press. 1935. Pp. 112.)

HÜFNER, W. *Wirtschaftliche Verflechtungen in Südwestdeutschland.* (Berlin: Junker und Dünnhaupt. 1935. Pp. 84.)

This is one of a series of special investigations of economic relationships of local industrial areas in southwest Germany, overlapping the artificial political areas, which are deemed necessary as a basis for industrial reconstruction. The areas covered are in Baden, Hesse, Württemberg, and Bavaria. Three classes of traffic over local political boundaries are studied—namely, commuting workers, freight movements, and electric current. The data are raw materials awaiting whatever use may be made of them.

JENS P. JENSEN

JENNINGS, W. W. *A history of the economic and social progress of European peoples.* (Lexington, Ky.: Kernel Press. 1936. Pp. xiii, 713.)

JERABEK, E., compiler. *A bibliography of Minnesota territorial documents.* (Saint Paul: Minnesota Historical Soc. 1936. Pp. xvi, 157. $1.25.)

KNOWLES, L. C. A. and KNOWLES, C. M. *The economic development of the British overseas empire.* Vol. III. *The Union of South Africa.* (London: Routledge. 1936. Pp. vii, 356. 10s. 6d.)

From his own researches, guided by the lecture notes of his late wife, Mr. C. M. Knowles now gives us this third volume in the series of works planned by Mrs. (Professor) Lilian Knowles.

Despite its title, the book is a series of monographs on selected subjects rather than an integrated historical treatise. The major topics discussed are the immigration and migration of European and Asiatic populations, the development of legal institutions related to the acquisition, ownership, and use of land by the white population, the development of South African agri-

culture, the discovery of mineral resources and the rationalization of the mining industries, labor problems on the mines, railway and shipping development, the history of customs and preferential railway tariffs, and those aspects of the native problem related to native labor and native ownership of land. The book contains practically nothing on South African currency and banking, and very little on public finance. The growth of manufacturing is discussed principally in its relationship to South African tariff history; and the amount of space devoted to the development of the gold-mining industry is much less than would be expected from its acknowledged importance.

The approach to each of the selected subjects is fundamentally that of the historian. It is with the development of certain economic institutions that the author is concerned and not with the interplay of economic forces. Within the scope of this point of view, each subject is treated in considerable detail, and the discussion is enlivened by many quotations from contemporary sources. In general more space is devoted to the early stages of development than to the more recent phases of South African history. The four chapters on agriculture (over one-third of the book) are especially good and are an important contribution to the annals of South African economic history.

Acheson J. Duncan

Kohn, H. *Western civilization in the Near East.* Translated by E. W. Dickes. (New York: Columbia Univ. Press. 1936. Pp. xi, 329. $3.50.)

Laski, H. J. *The rise of liberalism: the philosophy of a business civilization.* (New York: Harper. 1936. Pp. 337. $3.)

MacInnes, C. M. *An introduction to the economic history of the British Empire.* (London: Rivingtons. 1935. Pp. vii, 431. 7s. 6d.)

Moore, E. W. *Neo-Babylonian business and administrative documents, with transliteration, translation and notes.* (Ann Arbor: Univ. of Michigan Press. 1935.)

Muir, D. E. *Machiavelli and his times.* (New York: Dutton. 1936. Pp. xvii, 262. $3.)

Neilson, N. *Medieval agrarian economy.* (New York: Holt. 1936. Pp. 112. $1.)

Ogburn, W. F., editor. *Social changes during depression and recovery (social changes in 1934).* (Chicago: Univ. of Chicago Press. 1935. Pp. v, 711-828.)

Piettre, A. *L'évolution des ententes industrielles en France depuis la crise.* Tome II. (Paris: Recueil Sirey. 1936. Pp. 239.)

Rappard, W. E. *L'individu et l'état dans l'évolution constitutionnelle de la Suisse.* (Zurich: Ed. Polygraphiques. 1936. Pp. ix, 566. 14 fr. suisses.)

Sakolski, A. M. and Hoch, M. L. *American economic development: an introduction to present economic problems.* (New York: Thomas Nelson. 1936. Pp. xii, 448.)

Schneider, H. W. *The fascist government of Italy.* (New York: Van Nostrand. 1936. Pp. xii, 173. $1.25.)

Contains a chapter on fascist economic policies.

Sipos, A. *La vie économique en Hongrie pendant et après la crise, 1932-1935.* (Budapest: Inst. Litteraire et Imprimerie "Patria." 1936. Pp. 50. 2 pengos.)

Stoupnitzky, A. *Statut international de l'U.R.S.S. état commerçant.* (Paris: Lib. Gén. de Droit et de Jurisprudence. 1936. Pp. 486. 50 fr.)

Strayer, J. R. *The royal domain in the baillage of Rouen.* (Princeton: Princeton Univ. Press. 1936. Pp. 275. $3.50.)

This book consists primarily of the full text of a manuscript belonging to the Bibliothèque Municipale of Rouen. It is an "état du domaine royale" written between 1261 and 1266 by one of the clerks on the staff of the Baillage. Its interest lies in its relation to administrative changes which placed primary emphasis upon the leasing of the domain in relatively small parcels for money rents. This record, also, marks definitely an important stage in the development of the royal domain in Normandy. An important document at this precise date is, therefore, a notable addition to the published sources on Normandy.

There is an excellent introduction of 30 pages, which summarizes the primary features of the text. The text itself is carefully annotated, giving particulars on estates, personalities, and jurisdictions at earlier dates.

A. P. U.

THOREZ, M. *France today and the People's Front.* (New York: International Pubs. 1936. Pp. 255. $1.75.)

In a direct study of the economic status of the social classes of France Thorez skillfully traces the disintegrating factors in the capitalistic economy, politically exemplified by fascism and nazism, which, creating crises in agriculture and industry, resulted in the annihilation and impoverishment of whole strata of the middle classes and in a growing concentration of industrial and financial capital. It is a vivid account of the post-war economic crisis of France. Its general features are strikingly and tragically identical with the post-war economic difficulties of the other Western countries. A detailed analysis of the hierarchy of French industrial magnates and of the banking oligarchy as typified by the Bank of France is given, which under cover of the crisis have strengthened their positions of power.

In Part 2 the author delineates in bold strokes the leaders, organizations and aims of the various fascist leagues. Particularly vivid is the premeditated rising and seizure of political power on February 6, 1934, on the part of the organized fascist forces of the oligarchy.

The fascist *coup de force* failed. The reply made by the working class in the form of immediate counter-demonstrations and the call of a general strike, involving some four and a half million workers, was prompt and effective. By July 27, 1934, through the continued efforts of the communist party, the socialists and trade unionists finally effected a united front against fascist forces. Next a united proletariat secured alliances with the peasants and the middle classes, comprising some twenty-one million people, in order to prevent the victory of fascism. This unification of ideologically divergent and even contradictory social groups, known as the People's Front, will last only as long as the specter and menace of fascism is alive and threatening. Conscious of the failure of social democracy in both Germany and Austria, the People's Front is a splendid example of the speed with which the French working and middle classes composed their differences in the face of their common enemy.

In Part 4 an incisive comparison is made between fascist and anti-fascist plans of dealing with the economic crisis.

In presenting the essential facts of the France of 1936 the work has already been of immediate political importance.

HERMAN HAUSHEER

UYEHARA, S. *The industry and trade of Japan.* 2nd ed. (London: P. S. King. 1936. Pp. xii, 259. 12s. 6d.)

WILCOX, J. K., compiler. *Guide to the official publications of the New Deal administrations: supplement, April 15, 1934—December 1, 1935.* (Chicago: Am. Library Assoc. 1936. Pp. 184. $1.75.)

A detailed bibliography.

Atlas of the industries of the U.S.S.R. (New York: Bookniga Corp., 255 Fifth Ave. 1936. Pp. 400. $50.)

Compiled from official data of the State Planning Commission of the U.S.S.R. and the R.S.F.S.R., the Planning Commissions of the Constituent Republics, Regions, Provinces, All-Union Combines and Trusts.

The Balkan states. I. *Economic: a review of the economic and financial development of Albania, Bulgaria, Greece, Roumania and Yugoslavia since 1919.* (New York: Oxford Univ. Press. 1936. Pp. 154. $2.)

Specially prepared for, and with the assistance of, the Information Department of the Royal Institute of International Affairs.

Guía monográfica del Perú. Seccion I. *El credito.* Tomo I. (Lima: Oficina Estadistica Departamento de Publicidad. 1936. Pp. 269.)

Japanese trade and industry, present and future. (London: Macmillan. 1936. Pp. xviii, 663. 21s.)

Presupuesto general del estado: ejercicio económico, 1935. Tomo I, parte primera. *Presupuesto general de gastos.* Tomo II, parte segunda. *Presupuestos de entes industriales y comerciales.* Parte tercera. *Presupuestos de los municipios.* (Montevideo: Republica Oriental del Uruguay. 1935. Pp. xviii, 588; 470.)

The Texas almanac and state industrial guide. The encyclopedia of Texas: a reference book on the resources, industries, commerce, history, government, population and all other subjects relating to the political, civic and economic development of Texas. (Dallas: Belo Corp. 1936. Pp. 512. 50c.)

World economic review, 1935. (Washington: Supt. Docs. 1936. Pp. 421. 50c.)

Agriculture, Mining, Forestry and Fisheries

The Colonization of Western Canada. By ROBERT ENGLAND. (London: P. S. King. 1936. Pp. 341. 15s.)

Much of the material in this volume was prepared in 1933 and set down in definitive form. The author is aware that events have moved quickly since then and have tended to modify some of his conclusions. Yet to this reviewer one of the most striking features of this work is the degree to which unknown factors have confirmed the main conclusions and have supported in a remarkable way the analysis that the writer has made.

Mr. England was for some years employed in the Department of Colonization and Agriculture of the Canadian National Railways, having charge of the work of this department in the West, with headquarters at Winnipeg. Before undertaking these duties in Canada he had gained wide experience in problems of immigration and settlement both in Great Britain and on the Continent. He was fortunate in having as supervisor Dr. W. J. Black, a man who approached these difficult and complex questions with insight

and sympathy supported by expert knowledge. In general the purpose of the department was to settle the largest number of persons that the country could absorb, under conditions that would insure the optimum of agricultural and social progress. Detailed assistance was rendered to newcomers in improving agricultural technique and promoting the production of quality cereals and livestock. This work constitutes one of the brightest chapters in the history of the Canadian National Railways and must remain as an enduring monument to the character and vision of Dr. Black.

With such a background and training Mr. England is admirably equipped to undertake a study of this nature. In Part 1 he deals with the many problems that emerge with a moving frontier, and traces in broad outline the history of the settlement of the prairies from 1870 to 1934. He makes a notable and original contribution to the theory and practice of settlement in his analysis of the results of *bloc* colonization as contrasted with the settlement of pioneer areas by various racial groups. He finds that the latter method has given impetus to the amalgamation of the different racial strains and has greatly enriched community life. His examination of the colonization of the Peace River country and those districts of Alberta and Saskatchewan where mixed settlements have been made indicates that English quickly becomes the common language, that local government is of the British tradition, and that economic and social standards tend to conform with those of the West as a whole.

In his study of the drift of population to the land during the years 1930-1934 he emphasizes the value to the nation of self-supporting communities. Mr. England believes that it is an economic fallacy to suppose that men of frugality maintaining a local economy, consuming as much of their own produce as possible on the farm and selling only the surplus, are of little value to the nation because of their inability to purchase tinned meats, radios, and machine-made furniture. He concludes that such settlers are a definite asset, giving stability to social institutions while at the same time establishing permanent homes.

In Part 2 Mr. England presents an interesting account of the experiment conducted by the Canadian National Railways in using racial consciousness as a lever to raise community standards in their economic and social aspects. In this project Dr. Black had the assistance of a number of prominent citizens, and the results surpassed all expectations. It is regrettable that this work was abandoned as a result of the depression, for it was unique in scope and outstanding in achievement. No serious student of problems of group settlement and racial coöperation can afford to neglect it.

Part 3 is devoted to a study of *bloc* settlement, including Slav, German, Scandinavian, Hungarian and others. Although it affords much important information, relatively little new ground has been broken here. Part 4 covers British and French communities in the West, with a final chapter on

the effects on the Western economy of the vast changes in the world scene during post-war years. Mr. England sees the restrictions on immigration, railway deficits, the decline in exports, and the general slowing down of business in the Dominion as parts of a common problem. The significant fact in the life of the West is wheat, and its fortunes pervade the entire national economy. He considers that few events have been so important for the future of the West as the signing of the wheat export agreement in London in 1933. With this view the reviewer is in disagreement and regards it as merely a surrender to panic.

Taking the book as a whole, it must be regarded as one of the more important economic studies written in Canada during the past decade. In its own field it is without a peer. It is well documented and has an index.

W. W. SWANSON

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Les Prix Agricoles Mondiaux et la Crise. By BERTRAND NOGARO. (Paris: Lib. Gén. de Droit et de Jurisprudence. 1936. Pp. 167. 20 fr.)

The author of this scholarly monograph, a distinguished professor in the University of Paris and a former Minister of Public Instruction in France, concludes that the movement of prices since 1919 in the great agricultural markets of the world relates the factors of production and consumption, *i.e.,* supply and demand. This relationship leads to an interpretation in conformity with the elementary principles of the theory of prices, or the theory of value, in its most classical form. He directs attention to the fact that the laws of value do not act in like manner for the products of the soil as for manufactured goods. Supply adapts itself to demand much less quickly and less completely for the former than for the latter, a state of affairs which, in time of crisis, reduces agriculture to a period of severely lowered prices while industry orients itself by a much more prompt adjustment of production.

In the opinion of the author, the preëminent cause of the decline in world agricultural prices was the abnormal development of production and the accumulation of stocks. The reality of this over-production has been contested, with closed eyes, it is true, and with *a priori* arguments, by certain deductive economists, who wish to see only the monetary factor played up. Other authors have objected generally that over-production is only a disequilibrium between supply and demand, that over-production is relative, that it may be the reverse of under-consumption. But Nogaro states that, although consumption cannot always be determined in rigorous fashion, as far as essential needs are concerned, especially food requirements, there is a great stability in consumption which allows us to consider it as a positive fact and consequently to attribute to the term "over-production" a perfectly objective significance. For four of the largest markets investi-

gated, each sharply distinct from the other, those of wheat, meat, sugar and timber, the same discovery was made: it was war which was the essential cause of the abnormal development of production with the accompanying formation of enormous stocks and the consequent fall of prices.

Although the supply factor stands in the foreground of any attempt to interpret the general price movement of the past several years, Nogaro says that the monetary influence is not necessarily excluded as a subjacent factor. However, the facts do not correspond with the simple hypothesis of a price movement resulting from variations in demand which are a function of the variations in the quantity of money.

In describing the attempts made to counteract the catastrophic breakdown of prices on the great agricultural markets, the author is of the opinion that certain of them have contributed only to aggravate the trouble. Others without doubt have been more successful. Among the latter group, there are two divisions: those accomplished within the national framework and those on an international plan. It is not surprising that government interventions solicited by distressed producers are first introduced within the national framework. At the beginning the importing countries have been privileged; for it is much easier to withdraw a national market from competition than to keep foreign markets open. Thus they have been able, for a certain time, to escape the world depression; however, the example of France shows what becomes of a market saturated with its own production. As for exporting countries, they are also to be seen attempting to support their producers by a political autonomy. But they do so at the expense of the foreign markets; and even when a country, like the United States for cotton, and Brazil for coffee, furnishes the greatest part of the world supply, foreign competition operates to supplant it little by little on the foreign market.

Thus, when the insufficient price level of agricultural products appears not only as a cause of trouble for the cultivators, but further as one of the essential causes of the general crisis from which commerce and industry are suffering, and by repercussion the entire population, one cannot fail to follow with distressed interest the vicissitudes of an evolution still of doubtful outcome. And as the measures undertaken, separately or collectively, by groups and governments, have often been contrary to the ends sought, the theorists of political economy are led to ask whether the solution must be sought in a return to practices more in conformity with the very nature of these world markets, or in the pursuit of new modalities. According to the author, it would seem premature to say whether the struggle undertaken against the lowering of agricultural prices, in the course of the present crisis, leads us toward a return to the old economy or toward a new economy.

WILSON GEE

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Theorie der Landwirtschaftskrisen. By Ernst Lagler. (Berlin: Carl Heymann. Vienna: Oesterreichischer Wirtschaftsverlag. 1935. Pp. 190. RM. 8.50.)

Mr. Lagler divides his book into two parts. In the first part (pp. 15-117) he gives a history of the development of the theories explaining agricultural crises as well as his classification of these theories and their critical appraisal. In the second part (pp. 117-183), which he calls constructive, he tries to build a foundation of his own "integral" (ganzheitlichen) theory of agricultural crises.

Mr. Lagler begins with the statement that it is impossible to find either in economic theory or in economic history a complete theoretical definition of the nature and of the forms of agricultural crises; in his opinion the pre-war writings about agricultural crises did not go farther than to give some explanations of the sudden decline of agricultural prices. The post-war writings about agricultural crises he classifies into three groups: (1) historic-realistic studies; (2) monetary explanations of crises; and (3) Marxian theories of agricultural crises. More than a half of the first part of the book (pp. 54-117), is taken by the exposition of these theories, and their criticism; and perhaps it is the most interesting part of the study. The exposition of the first and of the third groups of theories may be of particular interest for Anglo-Saxon readers because it deals mainly with German or Russian authors not very well known in Anglo-Saxon countries, with the exception, perhaps, of Professor Max Sering, authority on world agricultural problems, whose writings are in the center of the first group. The theories discussed under the second group—monetary explanations of crises—belong mainly to Anglo-Saxon theorists such as Professor G. F. Warren and Mr. R. R. Enfield, or to such internationally known theorists as Professor Cassel.

The author places separately the explanation of the agricultural crisis of the last quarter of the nineteenth century by the German economist, Schäffles, who, in the opinion of Mr. Lagler, alone understood this agricultural crisis as a crisis of world economic development. In one of the following sections, where he tries to give a more strict definition of agricultural crises, he says that a crisis must affect the whole agriculture and not only some of its branches or some types of agricultural enterprises; that an agricultural crisis is more than a price crisis, it is a change of the whole structure of agriculture. He also cautions against the identification of an agricultural crisis with the turning points of business cycles, emphasizing their irregular appearance and their long duration. He identifies only three agricultural crises during more than the century that has passed since the Napoleonic wars. This distinction between agricultural crises and business cycles must be made because many writers mix these two quite different phenomena. However, we cannot accept the statement that "agriculture shows no direct relationship to the

business cycle." We can agree with the statement that agricultural crises cannot be related to business cycles. Perhaps they may be related, to a certain degree, to the so-called long economic cycles, if such really exist. But *agricultural fluctuations, not crises,* have much to do with short-term business cycles, as many theorists of business cycles, beginning with Jevons, have demonstrated several times.

Mr. Lagler emphasizes the multiplicity of the causes of agricultural crises, and this point of view must be approved. However, it is not quite clear how the causes which he enumerates in the second part of his book may be regarded as the typical causes of any agricultural crisis or of the present post-war agricultural crisis only. The theoretical rather than historic character of the exposition in this part of the book suggests the first interpretation; but in his conclusion Lagler says (p. 183), referring to the preceding sections, that the above concrete enumeration of the principal causes of the *present* world agricultural crisis does not pretend to be a complete enumeration of all possible causes of agricultural crises.

As a matter of fact, not all of the causes which Mr. Lagler mentions in the constructive part of his book may be considered as typical of any agricultural crisis. For instance, he ascribes considerable importance to the decline in the rate of the growth of population, characteristic of the post-war period. However, the agricultural crisis of the last quarter of the nineteenth century just coincides with the period of rapid growth of the world population, characteristic of the whole nineteenth century. Under such conditions, the decline in the growth of population hardly can be considered *as one* of the *typical causes* of agricultural crises. Among other causes of the post-war agricultural crisis, Lagler mentions agrarian revolutions and radical agrarian reforms that took place, after the war, in eastern Europe. In our opinion, these revolutions and reforms mitigated the world agricultural crisis rather than enforced it, as surpluses of agricultural products in Russia and in other east-European countries, ready for export on the world markets, were greatly reduced by these developments. Could Russia and the Danubian countries recover their pre-war exports of grains the world agricultural crisis would still be much more severe.

It is hardly possible to recognize that Mr. Lagler builds a new "integral" or "totalitarian" theory of agricultural crises. He brought together many of the factors which may be considered as responsible for agricultural crises, particularly for the post-war agricultural crisis. Most of them have been emphasized by other theorists, whose theories he exposes in the first part of his book. Some of them are specific for the present crisis only, and not for other crises. There even arises the question: Can a general theory of agricultural crises be built? Are not historic-realistic descriptions of individual agricultural crises the most that can be done? The fact that they have been so seldom and irregular rather speaks for this. But Mr. Lagler, himself,

does not pretend to build a new complete theory; he only claims that he contributed to the foundation for a systematics of the causes of agricultural crises; and we think that he has a right to such a claim.

V. P. TIMOSHENKO

Stanford University

NEW BOOKS

CHASE, S. *Rich land, poor land: a study of waste in the natural resources of America.* (New York: McGraw-Hill. 1936. Pp. x, 361. $2.50.)

COHEN, R. L. *The history of milk prices: an analysis of the factors affecting the prices of milk products.* (Oxford: Agric. Econ. Research Inst. 1936. Pp. 205. 5s.)

COLVIN, E. M., compiler. *Farm youth in the United States: a selected list of references to literature issued since October, 1926.* Agric. econ. bibliog. no. 65. (Washington: Supt. Docs. 1936. Pp. v, 196.)

COLVIN, E. M. and FOLSOM, J. C. *Agricultural labor in the United States, 1915-1935: a selected list of references.* Agric. econ. bibliog. no. 64. (Washington: Supt. Docs. 1935. Pp. vii, 493.)

COMPTON, K. T. *Let's go partners.* Reprinted from *Country Home,* June, 1936. (New York: Chemical Foundation. 1936. Pp. 1-14.)

——————. *Science in an American program for social progress.* Address before National Ind. Conf. Board, May 28, 1936. (New York: Chemical Foundation. 1936. Pp. 17-36.)

FANNING, L. M. *The rise of American oil.* (New York: Harper. 1936. Pp. ix, 221. $2.50.)

In this book Mr. Fanning has traced not only the development of the oil and gas industry but, more briefly, the development of other industries: automobile, airplane, iron and steel, machine-building, electrical power, railways and street railways, canals and highways, domestic heating and air-conditioning. There are so many significant sidelights on economic history, particularly on early history, that the book should be very useful in college classes, while the graphic style ought to appeal to the general reader. The author's knowledge of technological processes enables him to discuss clearly and interestingly many subjects that few economists could even understand, as for instance, the developments in engines and in petroleum refining.

Two mild criticisms seem to be called for. In the first place, the author seems too optimistic about the future oil supply of the United States. He assumes generally that it is nothing to be concerned about. In the second place, he uses a dramatic, journalistic style which finally palls a little, writing in the present tense most of the time, even for the historical accounts, with "we find" and "we see" introducing the story over and over again. Perhaps this will appeal to the general public; but the past tense seems better adapted to historical narrative.

JOHN ISE

GRAHAM, L. L. *The romance of Texas oil.* (Fort Worth: Tariff Pub. Co. 1935. Pp. 126.)

HANNAN, J. E. *Congress investigates tin.* (Washington: American Univ. Grad. School. 1936. Pp. 22.)

HARRIS, M. *Agricultural landlord-tenant relations in England and Wales.* Land-use planning pub. no. 4. (Washington: Supt. Docs. 1936. Pp. 63.)

KIESSLING, O. E. and HUGHES, H. H., compilers. *Minerals yearbook, 1936.* (Washington: Supt. Docs. 1936. Pp. xiii, 1136. $2.)

KLOPSTOCK, F. *Der Tee im britischen Weltreich.* Inaugural-Dissertation zur Erlangung der staatswissenschaftlichen Doktorwürde. (Berlin: Author, Friedrich-Wilhelms-Universität. 1936. Pp. 87.)

LINDSTROM, D. E. *Forces affecting participation of farm people in rural organization: a study made in four townships in Illinois.* Agric. Exp. Sta. bull. 423. (Urbana: Univ. of Illinois. 1936. Pp. 48.)

MACKINTOSH, W. A. and JOERG, W. L. G., editors. *Canadian frontiers of settlement.* Vol. IX. *Settlement and the forest frontier in Eastern Canada,* by A. R. M. LOWER. *Settlement and the mining frontier,* by H. A. INNIS. (Toronto: Macmillan. 1936. Pp. xiv, 424. $4.50.)

MATTHEI, A. *Agrarwirtschaft und Agrarpolitik der Republik Chile.* Berichte über Landwirtschaft, 119. Sonderheft. (Berlin: Paul Parey. 1936. Pp. 100.)

ODELL, E. A. *Swiss cheese industry.* (Monroe, Wis.: Monroe Evening Times. 1936. Pp. 88.)

Detailed account of the origin and development of a distinctive dairy achievement in Green County, Wisconsin.

OLCOTT, M. T. and HENNEFRUND, H. E., compilers. *Valuation of real estate, with special reference to farm real estate.* Agric. econ. bibliog. no. 60 (supersedes no. 29). (Washington: Supt. Docs. 1935. Pp. v, 350.)

A bibliography with annotations.

PELZER, L. *The cattlemen's frontier: a record of the trans-Mississippi cattle industry from oxen trains to pooling companies, 1850-1890.* (Glendale, Calif.: Arthur H. Clark Co. 1936. Pp. 351.)

QURESHI, A. I. *Agricultural credit.* (New York: Pitman. 1936. Pp. 207. $2.50.)

SCHAFER, J. *The social history of American agriculture.* (New York: Macmillan. 1936. Pp. ix, 302. $2.50.)

SHELDON, W. D. *Populism in the Old Dominion: Virginia farm politics, 1885-1900.* (Princeton: Princeton Univ. Press. 1935.)

THUSS, A. J., JR. *Texas oil and gas: a treatise on the law pertaining to rights in oil and natural gas in the state of Texas, including leases and conveyances.* 2nd ed. (Kansas City: Vernon Law Book Co. 1935. Pp. v, 680.)

WALL, N. J. *Agricultural loans of commercial banks.* U. S. Dept. of Agric. tech. bull. no. 521. (Washington: Supt. Docs. 1936. Pp. 56. 10c.)

WENCHEL, J. P. and MOORE, M. H., compilers. *Laws applicable to the United States Department of Agriculture, 1935.* (Washington: Supt. Docs. 1936. Pp. 772.)

WYCKOFF, V. J. *Tobacco regulation in colonial Maryland.* (Baltimore: Johns Hopkins Press. 1936. Pp. 228. $2.25.)

Tobacco legislation in colonial Maryland was developed upon a background of shifting economic philosophy. Athwart the rigid mercantilistic controls of England's colonial policy was thrust the growing consciousness of American individualism. The legislation that resulted mirrored this conflict, teetering toward either extreme, but always, in the earlier years, leaning more heavily in the direction of the policies of the mother country. But eventually trading privileges, tobacco monopolies, and other enactments designed primarily to increase the customs of the crown, faded into measures whose direct purpose was the betterment of the colony. The contest was drifting away from the question of domination of colonial trade to one of domestic supervision of affairs. Laws regulating packing, reducing output, improving the quality of the leaf,

and governing the assembling and storaging processes were passed with varying degrees of success. Discounting immediate effects, however, definite progress was made in the acceptance of an altered ideology which harmonized the aggressive optimism of the settlers with a realization of the necessity for objective self-regulation.

Despite the benefits which might have been realized from this mode of thinking, current tobacco problems present striking parallels to those that existed two hundred years ago. Between 1927 and 1934, exports of Maryland tobacco to France declined 8,957,000 lbs., due primarily to poor grading and packing. Similar difficulties perturbed the early Maryland growers. Likewise, acts curtailing tobacco cultivation for the purpose of raising prices were rendered abortive because of drought—strongly reminiscent of the fate of experiments under the A.A.A. Finally, the attempts of tobacco merchants to combat the ascendancy of monopolies through trade associations during the colonial era foreshadowed present-day efforts. Progress during the past two centuries in tobacco legislation has been dismally slow.

Professor Wyckoff has unraveled the complicated skein of his narrative with clarity. It is pertinent to add that the more practical student should not be deterred from a perusal of the volume because of the academic flavor of its title. The interlocking of past and present aids in the achievement of a broadened view, and makes an excursion into the pages of the book a decidedly worth-while venture.

SIDNEY M. RUBIN

Agricultural land requirements and resources: Supplementary rep. of Land Planning Committee to National Resources Board. (Washington: Supt. Docs. 1935. Pp. 64. 60c.)

Agricultural loans of commercial banks. Agric. Dept. tech. bull. 521. (Washington: Supt. Docs. 1936. Pp. 56. 10c.)

Agricultural statistics, 1936. Agric. Dept. (Washington: Supt. Docs. 1936. Pp. 421. 50c.)

Annals of rubber: a chronological record of the important events in the history of rubber. (New York: Indian Rubber World, 420 Lexington Ave. 1936. Pp. 19. 50c.)

Country life programs: proceedings of the eighteenth American Country Life Conference, Columbus, Ohio, September 19-22, 1935. (Chicago: Univ. of Chicago Press. 1936. Pp. 131. $1.50.)

Farm Credit Administration: third annual report, 1935. (Washington: Supt. Docs. 1936. Pp. 200. 15c.)

Maladjustments in land use in United States. (Washington: Supt. Docs. 1935. Pp. 55. 25c.)

Operation of the new pool plans of orderly development under the code of fair competition for the petroleum industry. Interior Dept., Petroleum Admin. Board. (Washington: Supt. Docs. 1936. Pp. 87. 10c.)

Proceedings of the Second Dearborn Conference of Agriculture, Industry and Science, Dearborn, Michigan, May 12-14, 1936. (Dearborn: Farm Chemurgic Council. 1936. Pp. xii, 409. 50c.)

Regional shifts in the bituminous coal industry: a summary. (Pittsburgh: Univ. of Pittsburgh Bur. of Bus. Res. 1936. Pp. v, 40.)

The revival of agriculture: a constructive policy for Britain. Prepared by a Committee of the Rural Reconstruction Assoc. (London: Allen and Unwin. 1936. 3s. 6d.)

United States census of agriculture: 1935. Reports for states with statistics for counties and a summary for the United States, farms, farm acreage and value, and selected livestock and crops. Vol. I. (Washington: Supt. Docs. 1936. Pp. 951. $2.50.)

Wheat studies. Vol. xii, no. 10. *World wheat utilization since 1885-86.* (Stanford Univ., Calif.: Food Research Inst. 1936. Pp. 339-404. $1.)

Yearbook of agriculture, 1936. (Washington: Supt. Docs. 1936. Pp. 1189. $1.25.)

Manufacturing Industries

Canadian-American Industry: A Study in International Investment. By Herbert Marshall, Frank A. Southard, Jr., and Kenneth W. Taylor. (New Haven: Yale Univ. Press. For the Carnegie Endowment for Internat. Peace. 1936. Pp. xiii, 360. $3.00.)

Seldom does "a pioneering enterprise," as the general editor calls it, result in so finished a product. Yet that is the impression left by this book, in spite of the modest statement that "the task of interpreting the complex movement must wait for a later time" (p. 263). There are some 1,177 American firms with direct investments in Canada valued at more than $2,000,000,000, and some 76 Canadian firms with 138 branches and subsidiaries operating in the United States whose holdings are valued at approximately $250,000,000. Each country in addition has large indirect investments in the other, as well as in other countries; but the extent and significance of these latter lie outside the scope of this book.

In the main the purposes of the volume are, first, to present the facts as to the movement of American industry into Canada and *vice versa;* second, to explain the causes of this two-way migration of industry; and third, to assess its importance as a factor in Canadian-American relations. The first objective is reached in chapters 2 and 3, entitled "The extent of American industry in Canada" and "The extent of Canadian industry in the United States." Chapter 2 contains 153 pages and chapter 3, 22, so that between them 175 pages are devoted to the statement of the facts and figures. Chapter 2 is especially detailed, and contains not only tables of figures representing magnitudes but charts displaying the corporate organization of all important American firms operating in Canada. In contrast with this amazing array of information the meagerness of chapter 3 is somewhat disappointing, even though the relative importance of the two migrations does not warrant more attention to the matter. Two technical chapters dealing with "Operations" and "Results" (5 and 6) are integral parts of this factual study, as is also chapter 1, "Historical background." The second objective, "Motive," of this vast movement of industry constitutes the subject matter of chapter 4, and the third, "Consequences and problems," of the final chapter.

As to the motivation of this phenomenon, the answer seems simple. "The

profit motive is a sufficient explanation" (p. 198). But not content with this easy formula the authors ask why American and Canadian industry has found it necessary to move across the border in search of profit. Certain investments, such as those in mines, forests, stores, hotels and public utilities "owe their origin to the search for raw materials or to an effort to complete or extend a service" (p. 216). But the great bulk of the investments has been in branch factories, and these are explained "by the desire to bring the product within the purchasing power of the foreign consumer" (p. 216).

As to the importance of this migration for Canadian-American industry and trade, tariffs, balance of international payments, and the whole Canadian economy, chapter 7 offers many interesting suggestions, which are phrased modestly and set forth tentatively. In other words, this whole subject is wisely left open, to be assessed from time to time in the light of future events.

In an "Excursus" appended to the volume, Frank A. Knox, Queens University, has gathered together the available data on the Canadian balance of international payments (1900-1933). Even though he has not explained tne unusually large item, "Errors and Omissions" amounting in the 13 years between 1914 and 1926 to $2,534,100,000 of excess credit, he has played the part of the candid student, refrained from guesses at the explanation and left to others the solution of a mystery which has baffled not only the official Dominion statisticians but everyone else.

Professor Shotwell and the four collaborating authors of this volume are to be congratulated upon the high quality of its scholarship, its excellent style, and its pleasing format.

W. W. McLaren

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NEW BOOKS

Bradford, E. S. *Economic factors affecting shoe marketing: a study of some problems of the shoe manufacturer.* (New York: Author, 17 Lexington Ave. 1936.)

Creamer, D. B. *Is industry decentralizing?* Stud. of population redistribution bull. no. 3. (Philadelphia: Univ. of Pennsylvania Press. 1935. Pp. xii, 105. $1.)

This excellent monograph on location and relocation of manufacturing plants, seeks by careful definition of terms, and by a discriminating use of published and unpublished census data, to offer an intelligible answer to the question asked in its title. "Dispersion, . . . the location of industries in the smaller cities, towns and villages outside of areas of even moderate industrial concentration," is contrasted with "diffusion," which is defined as "the movement within an area of industrial concentration from the large, congested nuclear city to its periphery or suburbs," and which includes also "the development of counties of only moderate industrial concentration which do not contain a large city, and are not contiguous to the metropolitan centers." During the years of expansion, 1899-1919, displacement took the form of "diffusion." "Dispersion" came only in the depression years 1931-1933, and was confined

to four semi-durable goods industries: men's clothing, silk and rayon, knit goods, and boots and shoes. These industries have a high ratio of labor costs to "value added," and the dispersion was primarily of the wage-cutting sort. "This fact should not be overlooked by those who are tempted to encourage dispersion on humanitarian grounds." The author holds that "diffusion" is the more stable tendency and involves fewer social dangers.

LINCOLN FAIRLEY

HAYNES, W. *Chemistry's contribution: the economics of new materials.* Address at Princeton Univ., Dec. 10, 1935, in the Cyrus Fogg Brackett lectureship in applied engineering and technology. (Princeton: Princeton Univ. Press. 1936. Pp. 31.)

Automobile facts and figures. 1936 ed. (New York: Automobile Manuf. Assoc. 1936. Pp. 96.)

Reference book of the meat packing industry. (Chicago: Inst. of Am. Meat Packers. 1936. Pp. 56.)

Survey of industrial development, 1935: particulars of factories opened, extended and closed in 1935, with some figures for 1934. (London: H. M. Stationery Office. 1936. Pp. 36. 9d.)

Transportation and Communication

The Interstate Commerce Commission: A Study in Administrative Law and Procedure. Part III, Volume B. By I. L. SHARFMAN. (New York: Commonwealth Fund. 1936. Pp. 833. $5.00.)

Part III of this intensive study of the history of the Interstate Commerce Commission is devoted to the character of the Commission's activities. In Volume A are treated primarily the Commission's valuation activities and its efforts to control the organization and finances of the railroad companies since 1920. Volume B under review deals solely with the results of the Commission's efforts to regulate, supervise and control railroad rates and charges. The Commission's rulings and orders with reference to rates from the time of its establishment down to the present time are reviewed and interpreted.

About one-third of the space is given over to an analysis of the decisions affecting the rate level and the remaining two-thirds consists of an analysis of the rate structure. Over a thousand of the Commission's decisions are cited which form the basis of this analytical appraisal. Many books have been written on this subject but no one has made such an exhaustive analysis and thorough-going survey of this subject as has Professor Sharfman. His treatise is monumental and encyclopaedic in character. Every aspect of the regulatory problem ever considered in a formal manner by the Commission is set forth in its proper light.

The control of the rate level is not a simple task: the industries which furnish the traffic for the railroads are undergoing economic changes continually and at the same time there are important developments going on all the time with respect to the railroads themselves and other agencies of transport.

The leading Advanced Rate Cases of the old Interstate Commerce act were those of 1910, 1914, 1915, and 1916. It is the conclusion of Professor Sharfman, and most students of transportation are of the same opinion, that "during the few years immediately preceding the war-time administration of the carriers the Commission failed to allow adequately for the rising costs of railroad operation and the accumulating difficulties of providing effective service." In the earlier cases the Commission could not do differently than it did on the basis of the evidence and the record before it; but in the later cases the Commission failed to appreciate that the country's transportation needs were increasing at a greater rate than the facilities which the carriers were able to provide. It is admitted, and this is the principal defense of the Commission, that the Commission was handicapped in many ways in passing upon these general requests for rate increases. Reliable valuation data were not available and the Commission was also without control over the financial structure and the financial operations of the railroads. And there was also present the baffling problem of the strong and weak lines.

After the change in the Commission's rate-making powers under the Transportation act of 1920 there were the following outstanding rate-level cases. The decision of 1920 at the time the railroads were returned to their owners for operation expressed the new regulatory approach; it carried out the legislative mandate and made practical provision for the needs of the carriers. For the first time in the history of federal regulation was the Commission able to support its conclusion upon a valuation or rate-base in which it had confidence. In the General Rate Decreases of 1922 the Commission recognized the fact that large revenues are not necessarily the result of high rates. The lowered rates were calculated to stimulate traffic and thus increase financial returns as well as lessen transportation burdens. In this proceeding particularly, the Commission not only manifested its responsibility for the financial welfare of the carriers but it also asserted forcibly that reasonable rates would have to be maintained for the adequate protection of the shippers and of industry in general.

In the Proposed Western Advances of 1925 increased rates were refused, although the condition of the carriers warranted more revenues, because of the depressed condition of agriculture. The Proposed General Rate Advance of 1931 was seemingly a proceeding initiated by the railroads in their effort to forestall shippers' demands for a general rate reduction. The Commission concluded that additional transportation costs on traffic in general would make business conditions still more difficult and would also be disadvantageous for the carriers. Still the Commission was deeply enough interested in the financial dilemma of the railroads to authorize certain rate adjustments on traffic which they were capable of holding on their lines. In the General Rate Level Investigation of 1933 the maladjustment as between the rate level and the price level was continued. According

to Professor Sharfman "there is much warrant for concluding that the Commission's determination was grounded in a faulty analysis of the economics of the situation, despite the fact that it was in general harmony with the efforts of the government to stay the processes of deflation." In general, it is his conclusion, notwithstanding such a comment as the above one, that "the Commission appears to have executed the rule of rate-making in a sound, realistic, and reasonably effective manner."

The recapture experiment was not successful because it was "ill suited to the system of public regulation under private ownership and management." The revised rule of rate-making expresses no new departure; it practically reaffirms the Commission's past policy.

The adjustment of specific rates is the second step in the rate problem. All of the standards and criteria advanced in rate controversies fall into two principal groups: those which deal with the effect of rates on the volume of the traffic—the demand factors; and those which relate to the outlays to secure the service—the cost factors. No simple formula has been developed which can be applied and which will make these specific rate adjustments more or less automatic. During its fifty years of existence and rate-making activity the Commission has built up a large body of principles. The most flagrant maladjustments in the rate structure have been eliminated. There has also been inevitably a marked tendency to emphasize more and more the cost factors. This is evidenced by the repeated prescriptions of distance scales.

Professor Sharfman's analysis and discussion of the principles involved in fashioning a rate structure proceeds along the following lines; the control of rate relationships, the adjustment of commodity relationships, adjustments of distance relationships, and comprehensive rate adjustments. Since 1920 the Commission has had the minimum-rate power which affords it a more thorough-going control over rates and makes the Commission in the last analysis an economic planner. The comprehensive rate adjustments have resulted from the attempts to get away from "piecemeal regulation." Sometimes a single complaint brought in its wake a sweeping readjustment. The most outstanding proceedings of this kind in recent years were the class-rate and Hoch-Smith investigations. Such cases involve extensive interests and invite the participation of shippers, carriers and state commissions of large sections of the country. The investigations tend to make the rate structure more logical and symmetrical. But our system of railroad charges is still far from perfect. That no greater progress has been made is not, according to Professor Sharfman, an indictment of the Commission. The Commission has been laboring under a limited authority; and broad systematic rates of adjustments have not been possible in so many instances because of the restricted form in which the Commission has been obliged to consider the rate issues brought before it.

There does not seem to be an ideal rate structure to be achieved by Com-

mission action. It is the very essence of transport economy that adjustments in rates will have to be made continuously, aside from making from time to time changes in the rate level. Regulation is a continuous process and the work of the Commission is never done. In speaking of the extended regulation of prices and production by government agencies in fields other than transportation, Professor Sharfman has this to say: "As a minimum, in any event, intimate knowledge of the experience of the Interstate Commerce Commission in railroad rate regulation should serve to prevent facile acceptance of theories of general price control and at least to suggest the magnitude and difficulty of the task that would be assumed."

This survey of rate regulation is one of herculean proportions considering the amount of research investigations involved. The analyses and interpretations of rulings and rate-making principles are accompanied with copious excerpts and quotations from Commission orders and opinions—statements of the minority are weighed and interpreted along with those of the majority. In the field of rate control this is the outstanding treatise of the Commission's policies and practices.

HENRY R. TRUMBOWER

University of Wisconsin

NEW BOOKS

LUST, H. C. *Abridged reports of the Interstate Commerce Commission and current digest of decisions under the Interstate Commerce act.* Vol. 12. (Chicago: Traffic Law Book Co. 1935. Pp. xv, 990.)

————. *Yearly digest of decisions of the Interstate Commerce Commission.* Vols. 3-5. (Fowler, Ind.: H. C. Lust Co. 1936.)

MUNDY, F. W., editor. *Mundy's earning power of railroads, 1936.* 31st issue. (New York: Jas. H. Oliphant. 1936. Pp. 757.)

WILSON, G. L., editor. *Railroads and government.* Annals, vol. 187. (Philadelphia: Am. Acad. of Pol. and Soc. Science. 1936. Pp. xiv, 264. $2.)

Freight commodity statistics, Class I steam railways in the United States, year ended December 31, 1935. Statement no. 36100. (Washington: Interstate Commerce Commission. 1936. Pp. 121.)

Some of the experiences with government ownership in the Scandinavian countries. (Chicago: Transportation Assoc. of America. 1936. Pp. 22.)

Statistics of railways of Class I, United States (1926-1935). Stat. summary no. 19. (Washington: Bur. of Ry. Econ. of the Assoc. of American Railroads. 1936. Pp. 12.)

Trade, Commerce, and Commercial Crises

Trade and Trade Barriers in the Pacific. By PHILIP G. WRIGHT. (Stanford University, Calif.: Stanford Univ. Press. 1935. Pp. xvi, 530. $4.00.)

This is another in the excellent series of research studies sponsored by the Institute of Pacific Relations. The choice of Mr. Wright was a happy one because of his general background with the United States Tariff Commission and his earlier writing on tariffs and oriental trade. The work was

more than half completed upon his untimely death in 1934 and has been completed under the supervision of W. L. Holland, the Institute research secretary, who contributes an introduction.

The scope and method of the volume are well described in Mr. Wright's own words:

> One of the first objects was to prepare a source book. The data here presented include tables showing (1) the total exports and the principal exports by commodities of each of the countries studied; (2) similar data for the total and principal imports of each of the countries, together with the duties imposed on the commodities listed; (3) the total exports and principal exports by commodities of each country to each country, together with the duty on each commodity. There is also an appendix including comparative figures of total trade by countries, in national currencies, in United States dollars and in percentages of total trade. The data mostly cover the years 1920 to 1934. [These valuable tables comprise about two-thirds of the book.]
>
> The study is, however, something more than a source book. An attempt at some analysis of the data is made. A chapter is devoted to each country. Each chapter is introduced with a brief discussion of the leading characteristics of the country studied—its area, population, density of population, natural resources and needs. Some attention is given to the question of its dependence on international trade as a means of obtaining its optimum development or of its comparative independence of foreign trade.

The countries whose trade is analyzed in the above manner include all those bordering the Pacific except the U.S.S.R. and those of Central and South America. The U.S.S.R. is discussed briefly but no detailed statistics are presented because the data were unavailable. A chapter is also devoted to the United Kingdom because of its extensive trade and political relations with Pacific countries.

The introduction and conclusion deal chiefly with the causes and results of trade barriers in general, though drawing upon the Pacific area for illustrative material. Mr. Wright points out the planlessness of our tariff systems and the resultant divergence thereof from any rational goal. He is particularly concerned with the effects of domestic tariff changes on other countries. A nation may have the right to strangle itself through a policy of self-sufficiency, but it is not morally entitled to adopt a method which at the same time cuts the life-line of a neighboring country. Japan's recent invasion of the Asiatic mainland is interpreted as being in part a defensive reaction to tariff increases by countries which were formerly good markets.

Depressions, born of capitalism, raise the bogey of overproduction. Along with steps to limit production go measures to curb imports. But tariff barriers raised at such a time push all countries still deeper into the morass. The increases of 1930 and later years are cited as cases in point, with Pacific countries particularly hard hit by one another's tariffs. In his comments on soviet Russia Mr. Wright remarks in passing that the socialist state is not subject to either depression psychoses or the favorable balance of

trade delusion which plague capitalistic countries. "It is in a position to welcome imports and to distribute these forms of wealth among its people" with a minimum of disturbance to the domestic economy.

While these comments on the weaknesses of the capitalistic system are an interesting outgrowth of an economist's study of trade and tariffs in the Pacific area, Mr. Wright's major thesis is:

> So long as international anarchy prevails in tariff making . . . there are potential dangers as well as potential benefits arising from international trade. . . . Nations have agreed . . . to renounce war as a means of settling international disputes. If such agreements are to be anything more than pious hopes, they must go further and also subordinate such provocatives of war as tariff making to international law.

ROBERT B. PETTENGILL

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Crises and Cycles. By WILHELM RÖPKE. (London: William Hodge. New York: Macmillan. 1936. Pp. xi, 224. 10s. 6d.)

While Professor Röpke neither courts fame nor risks notoriety in promulgating new theories in this work, it is certainly one of the best "all-round" general treatises upon the subject in contemporary literature. To the layman, the author offers a book couched for the most part in non-technical language, soundly educative in economic common sense, genuinely convincing through its uncontroversial tone and its sustained reference to the actual economic scene. But Röpke writes also as and for the specialist in cycle analysis. Drawing upon virtually every important work in the field, he voices definite opinions upon intricate theoretical and practical issues—upon the "moving cause" in cyclical variations, the rôle of commodity stocks, neutral money, internal *versus* exchange stability, reflation, and so forth. Because the work combines mature scholarship with straightforward comprehensible explanation, I predict its wide employment for a third class of readers—for undergraduate students of economics. The combination of erudition, lucidity, compactness and an engaging, even lambent, style is so rare in the dismal science that the tab of "textbook" is not inconsistent with the highest praise. Here the student finds a history of cycles, a résumé of explanations, a positive theory of causation, an analysis of cycle policy and extensive footnotes inviting him to further inquiries, all within the compass of 200 pages.

Whether diagnosing the character of our periodic economic sickness or prescribing a therapy, Professor Röpke cherishes profound distrust in socialism and all its variant or degenerate forms such as planned economy and the corporate state, and he reveals a ruddy optimism in the efficacy of capitalism. "What Russia has accomplished through the Five Year Plan is really a trifle as compared with the spontaneous investment waves of

capitalism" (p. 139, n. 1); the present breakdown is due to the war, the peace treaties, reparations and inter-allied debts, inflation and state interventions, rather than to anything in the nature of competition or even to wrong trade-cycle policy (p. 176). He would test all depression-cures by their conformity to our economic system of free enterprise (p. 195). But he is far from the "die-hard" non-interventionist school of Mises and Hayek, for he relies heavily on monetary expansion to put idle factors to work in the secondary or self-propagating depression; he believes that "compared . . . with the waste of doing nothing at all, any waste in executing more or less unnecessary public works appears rather insignificant" (p. 202); he does not shrink from a regular budget deficit in extreme situations, or heavy public borrowing when the funds do not come out of savings; and indeed even mere palliatives can be countenanced as "keeping the unemployed from disturbing outbursts of despair" (p. 148). After all, however "we are dependent on the entrepreneurs" (p. 196), and revival depends chiefly on measures to encourage their activity. Upon this basis, the Roosevelt measures in America and the von Papen plan in Germany failed signally (pp. 204-209).

Professor Röpke's analysis of causes of business cycles carries forward the general viewpoint of his widely read monograph of 1922, *Die Konjunktur.* Like Wicksell, Schumpeter and Hayek, he takes as a point of departure technical improvements and economic innovations, with an ensuing lag of money rates behind the rising natural rate, a credit expansion followed by positive inflation, and a boom in investment activity. These forces operate against a background of unstable psychology, the tendency of roundabout production to amplify fluctuations in producers' industries, the divorcement of saver from investor, and the intricate division of labor, which renders difficult entrepreneur estimates of demand. Although Röpke's description embraces these and other "real" elements, he feels himself most akin to Hansen and the monetary theorists (p. 111, n. 4).

Unfortunately it is exactly at the keystone of his theory that Röpke's hand falters. A crisis, he says, is a "breakdown of over-investment" (pp. 100-101, *et passim*). What is over-investment? The reader searches vainly for a direct description either of this excess or of correct investment; he is left to inference from three or four painfully contradictory passages. Contrary to the theory of Hayek and Keynes, says Röpke, "in our theory, it is not the rise of the rate of investment *relative* to the rate of saving which is the real cause of instability, but the *absolute* rise of investments, no matter whether financed by voluntary or forced savings" (pp. 108-109; italics mine). This sounds as though it were not *over*-investment, but investment itself, which leads to breakdowns. The same implication inheres in the repeated references to the "acceleration principle"—that investment leads to an *impasse* through its mere absolute increase, if the tempo of investment

is very rapid. In this vein, Röpke says also that a socialist state "could not escape the same fate, since in this case also the progressively growing scale of investments would necessitate a progressive scale of saving until the saving capacity of the nation were exhausted" (p. 116). Beyond the last phrase of this sentence, we have no cue as to why the mere absolute increase of investment should necessarily end. Directly contrary to all of this, however, he writes in another connection that "it is just this *excess of investments over savings* which is the essence of booms" (p. 131; italics mine)! He does not explain how investment could exceed saving, but elsewhere we read that "it is usually the adding of 'forced savings' to normal savings which raises investment to a dangerous height" (p. 108). If so, his theory coincides with Hayek's and Keynes's at this juncture; but that is precisely what he denies in the first sentence quoted and in all passages emphasizing the *absolute* growth of investment and the "acceleration principle." We are left in a complete quandary.

A lack of theoretical preciseness shows itself also in Röpke's casual use of the much disputed concept of "period of production" without attempt at defining terms (p. 73), and of the equally mooted notion of a "structure of production," employed once with a context probably of "capital intensity" (p. 109) and elsewhere with apparent reference to "the existing business organization" (p. 159 ff.). Throughout the book, the author's intransigeant support of the gold standard seems to proceed rather more from religious fervor than from reasoned argument. And many readers will regard sceptically the author's belief that "it is the acid test for every recovery program whether it succeeds in 'priming' the securities market, or not" (p. 126). On the other hand, especially excellent sections are Röpke's discussion of "secondary depressions," his demonstration that domestic price-level stability and stable exchanges are not necessarily incompatible (p. 164 ff.), and his observations on stable and neutral money (p. 148 ff.). Furthermore, his attack upon such time-honored popular fallacies as general overproduction, making work, double earning, is vigorous and characteristically eloquent.

Röpke's eloquence is not altogether without cost; it springs from a certainty which often borders upon dogmatism. There are few unsolved problems to leaven the lump of this "sound" gospel, no statistical arrays to challenge interpretation, a paucity of intriguing vistas into new theoretical country. But the author has really achieved a notable success in his attempt at "a synthetic presentation of the whole body of facts and thoughts on this all-important subject," and the positions characterized as "definite opinions of his own" are shrewd and convincing. The book inspires confidence in economics.

Howard S. Ellis

University of Michigan

NEW BOOKS

BARTON, B. *Merchant adventurers: the story of sea commerce.* (New York: Nelson. 1936. Pp. vi, 68.)

CALDWELL, S. A. *The New Orleans trade area.* Bur. of Bus. Res. bull. no. 1. (Baton Rouge: Louisiana State Univ. 1936. Pp. 24.)

HALL, R. O. *International transactions of the United States: an audit and interpretation of balance-of-payments estimates.* (New York: Nat. Industrial Conf. Board. 1936. Pp. xv, 230. $3.)

KAPP, K. W. *Planwirtschaft und Aussenhandel.* (Geneva: Georg. 1936. Pp. xi, 140. 4 fr. suisses.)

MOURRE, B. *Les fluctuations de l'activité économique: les periodes de longue durée et les crises.* (Paris: Alcan. 1936. Pp. 252. 25 fr.)

NOGARO, B. *La crise économique dans le monde et en France: symptomes, causes et remèdes.* (Paris: Lib. Gén. de Droit et de Jurisprudence. 1936. Pp. 347. 35 fr.)

SAYRE, F. B. *American commercial policy: the two alternatives.* Address before the Am. Acad. of Pol. and Soc. Science, Philadelphia, April 25, 1936. State Dept. commercial policy ser. no. 23. (Washington: Supt. Docs. 1936. Pp. 11. 5c.)

TUCKER, G. N. *The Canadian commercial revolution, 1845-1851.* (New Haven: Yale Univ. Press. 1936. Pp. 258. $3.)

Comparative statistics of imports into the United States for consumption by countries for the calendar years 1931-1935, inclusive. Vol. I. Group 00—*Animals and animal products, edible.* Vol. II. Group 0—*Animals and animal products, inedible.* Vol. III. Group 1—*Vegetable food products and beverages.* Vol. IV. Group 2—*Vegetable products, inedible (except fibers and wood).* Vol. VI. Group 4—*Wood and paper.* Vol. X. Group 8—*Chemicals and related products.* W.P.A. stat. project 65-31-2075. (Washington: Supt. Docs. 1936. Pp. xii, 218; xii, 521; xii, 529; xii, 438; xii, 337; xii, 516.)

Index to publications of the division of commercial laws. (Washington: Supt. Docs. 1936. Pp. 54.)

Politica economica internazionale. (Florence: Lib. Internaz. Seeber. 1936. Pp. iv, 254.)

These conference papers, with an approach by Dé Stefani, include a study by Di Nola of commercial treaties before and after the war, especially since 1927; a discussion by Arena of the relation of migration and crises; one by Gangemi of the tax burden in several countries (reduced to comparable terms) and its consequences for international trade; finally an essay by Mazzei on sanctions, written during the full tide of military victory.

R. F. F.

Reciprocal trade agreement between the United States of America and Switzerland. State. Dept. executive agreement ser. no. 90. (Washington: Supt. Docs. 1936. Pp. 48. 5c.)

Reciprocal trade: a current biblography. (Washington: Supt. Docs. 1936. Pp. 89.)

Annotated bibliography.

Statistics of trade with Italy and the Italian colonies. III. *December, 1935-March, 1936. Dispute between Ethiopia and Italy: coördination of measures under*

Article 16 of the Covenant. (Geneva: League of Nations. New York: World Peace Found. 1936. Pp. 60. 60c.)

A world review of laws affecting American foreign commerce. Dept. of Commerce, comparative law ser. (Washington: Supt. Docs. 1936. Pp. 51.)

Accounting, Business Methods, Investments and the Exchanges

NEW BOOKS

BACKMAN, J. *Adventures in price fixing.* Pamph. no. 8. (New York: Farrar and Rinehart. 1936. Pp. 57. 40c.)

This pamphlet recounts some of the world's post-war experiences in price fixing and production control—those in cotton (under the A.A.A.), rubber, coffee, nitrate, silk, wheat (France), butter (Australia), sugar, and hogs (Netherlands). Based on a series of articles in *Commerce and Finance*, it "anticipates a text on the broader subject of government regulation and control of business" under preparation by Mr. Backman and two collaborators. The conclusion is definite—all valorization schemes have failed or will fail.

Space limitations made it impossible for the author to analyze fully the economic issues involved. In only one instance (butter) is recognition accorded to temporary profits gained at the expense of consumers. Economists would appreciate a reconciliation of the failure of valorization with the accepted view that private monopolists can earn a surplus profit. Can valorization succeed after all, by securing coöperation of all producers (as in the rubber restriction begun in 1934), by preventing evasion (as the Blum government hoped to do in reviving wheat control), or in commodities without available substitutes (like tin, now under restriction since 1931)? Or must private monopolies, although secure from "non-coöperation" and "evasion," ultimately founder on the rocks of potential competition or substitute products? In any event, Mr. Backman's pamphlet is welcome as a sensible and popular exposition of truths too often honored in the breach.

SIMON N. WHITNEY

BAUER, R. S. and SIMPSON, L. R. *The law of business: a text on business law for use in colleges.* (St. Paul: West Pub. Co. 1936. Pp. xxxii, 649.)

BLAISDELL, W. M. *Financing security trading.* (Philadelphia: Author, Temple Univ. 1936. Pp. 199.)

BLUMBERG, H. *Successful credit store operation.* (New York: Harper. 1936. Pp. 273. $3.50.)

BOGEN, J. I. *Corporation finance.* (New York: Alexander Hamilton Inst. 1935. Pp. xix, 381.)

BROWN, E. L. *The professional engineer.* (New York: Russell Sage Found. 1936. Pp. 86. 75c.)

CLAFLIN, W. W. *The challenge of investment: your procedure in modern markets.* (New York: Harper. 1936. Pp. xi, 97. $1.75.)

CORNELL, W. B. and MACDONALD, J. H. *Business organization and practice.* (New York: Am. Book. 1936. Pp. 638. $1.88.)

ELY, J. T. A., and others. *Salesmanship for everybody.* (New York: Gregg Pub. Co. 1936. Pp. v, 335.)

FICHTNER, C. C., editor. *Proceedings of the eighteenth annual meeting of the American Association of Collegiate Schools of Business, held at Harvard Graduate School of Business Administration.* (Fayetteville, Ark.: Am. Assoc. of Collegiate Schools of Bus. 1936. Pp. 241. $2.50.)

GERDES, J. *Corporate reorganizations under section 77B of the Bankruptcy act.* (Chicago: Callaghan. 1936.)

HECKERT, J. B. *Accounting systems: design and installation.* (New York: Ronald. 1936. Pp. xix, 514. $4.)

HERRING, E. P. *Federal commissioners: a study of their careers and qualifications.* (Cambridge: Harvard Univ. Press. 1936. Pp. xi, 151. $1.50.)

HOTCHKISS, G. B. *Advertising copy.* Rev. ed. (New York: Harper. 1936. Pp. xxiv, 432. $3.25.)

JAVITS, B. A. *The commonwealth of industry: the separation of industry and the state.* (New York: Harper. 1936. Pp. xiv, 229. $3.)

Mr. Javits advocates in this book a separation of industry and the state under which industry, as he believes, could be truly self-governing in the public interest. The main thing needed is to keep politics out of business and business out of politics. The method proposed is the establishment of a Commonwealth of Industry. Most business troubles, it is claimed, arise chiefly from the abuses of competition; and all that is necessary is for business men to get together and regulate prices, trade practices, and production. A code would be made to govern the sector in which the particular business or trade operates, the code to consist of statutes and systems of laws. The necessary legislation would be in charge of the Industrial Commonwealth made up of twelve members. The various codes would go into effect at a date fixed by a committee which would apply to a federal court under the new declaratory-judgment law. The court would then consider, without an actual ordinary lawsuit, whether or not the proposed code was in the public interest; and, if not, it would be rejected. Arbitration would be provided for all cases of industrial dispute. The whole plan is worked out with an infinite amount of detail.

GEORGE M. JANES

JENKINS, J. G. *Psychology in business and industry: an introduction to psychotechnology.* (New York: Wiley. 1935. Pp. xii, 388. $2.50.)

JONES, L. L. *Our business life.* (New York: Gregg. 1936. Pp. 668. $1.50.)

KENNEDY, S. J. *Profits and losses in textiles: cotton textile financing since the war.* (New York: Harper. 1936. Pp. xvii, 257. $3.50.)

A worth-while addition to the literature on corporation finance, with emphasis obviously placed upon cotton textile financing, this book possesses special value both from the historical and practical viewpoints because in it are found a careful compilation and a critical analysis of conditions leading to, and facts surrounding, several relatively recent and sizeable mergers in this industry.

Though there have been 43 mergers and consolidations since 1918, "it would appear that the trend toward consolidation of small independent units into a relatively few large groups of mills . . . has only begun to manifest itself in the cotton textile industry" (p. 115). At the same time, recent mergers have been far from successful, first, because of over-capacity in the industry, and second, because of the methods and types of financing used.

Chapter 13, "Financing through government agencies," is an especially

suggestive chapter because it analyzes for the cotton textile industry the effects of loans made by the Reconstruction Finance Corporation to marginal producers. Certainly this government agency at present should not be the final arbiter in selecting those mills which are to continue in business and those which are to disband. Inclusion of a chapter on this subject emphasizes the well recognized necessity of similar detailed analyses for other industries and extensive inquiry concerning the position now occupied by the RFC in modern corporate financing.

Five chapters are devoted to "Proposed roads to recovery," including increased consumption, technological progress, reduction of prices, rationalization, and control of supply. The author holds that only the latter proposal offers much hope of success. Much of the existing over-capacity is not actual excess capacity; but "what is called by that name is basically the result of running an industry on a two or three shift basis which was built to run on only one shift, . . ." (p. 208). It is proposed that the industry arrive at a voluntary agreement, approved by the Federal Trade Commission as a fair trade practice contract, to limit the hours of production. If twenty-four-hour-per-day production again takes place, liquidation of many mills is inevitable.

Insofar as the investor in cotton textile securities is concerned, under existing conditions, "it is irrational to talk about the return which capital is 'entitled to'" (p. 214).

L. Douglas Meredith

Leahy, W. H. *How to protect business ideas: a study of trade-marks, patents, copyrights, labels and kindred properties.* (New York: Harper. 1936. Pp. ix, 157.)

Lyon, L. S. and Abramson, V. *The economics of open price systems.* (Washington: Brookings Inst. 1936. Pp. xii, 165. $1.25.)

This volume reviews briefly the economic background of open-price systems, their development and varying use from 1911 to 1933, their rapid extension under the N.R.A., and their present status, with some analysis of the implications of the decision of the Court in the Sugar Institute case.

The major part of the book is devoted to a survey of the relatively inconclusive evidence with respect to the effects of open-price associations (1) on the character of competition in the industries concerned (2) on the stability of prices and production and (3) on the position of small business; and to an appraisal of the problems involved in making open-price associations function in the public interest.

The authors conclude that, although such associations may serve to facilitate tacit agreements with respect to production and prices in particular industries, or may lead to the restriction of active competition where producers are very responsive to the actions of their fellows, they may serve social interests in other instances by affording a basis for informed and organized competition both on the sellers' and the buyers' side of the market. They suggest the desirability of a clear formulation of public policy with respect to the permissible objectives of open-price activity, and the possibility of establishing some governmental agency to appraise in advance the conditions in particular industries and formulate the restrictions under which such activities might reasonably be permitted in each.

Although the filing of current or future prices has been frowned upon by the courts, and is subject to serious abuse, it may in some instances be essen-

tial to fully informed competition. Identification of sellers (and sometimes of buyers as well) may likewise prove necessary if the maximum of legitimate use is to be made of the system. Waiting periods applied to price changes are regarded by the authors as in general undesirable, both because they reduce the flexibility of prices and because they afford an added opportunity for the coercion of prospective price cutters. Nevertheless they concede that such periods may be warranted in some cases, under proper safeguards, especially where orders are booked infrequently, or large parts of a season's business are obtained within short periods. They also suggest that in some instances government assistance, either in the collection or dissemination of price information, would be requisite for the successful operation of an open-price system.

A. M. McIsaac

MacDougall, E. D. *Speculation and gambling.* (Boston: Stratford Co. 1936. Pp. xi, 252.)

May, G. O. *Twenty-five years of accounting responsibility, 1911-1936: essays and discussions.* Edited by Carleton Hunt. (New York: Am. Institute Pub. Co. 1936. Pp. xiii, 421. $3.)

Moore, F. S. *Legal protection of goodwill: trade-marks, trade emblems, advertising, unfair competition.* (New York: Ronald. 1936. Pp. ix, 218. $3.50.)

Morey, L. *Introduction to governmental accounting.* 2nd ed. (New York: Wiley. 1936. Pp. xvi, 318. $3.50.)

Mosher, W. E. and Kingsley, J. D. *Public personnel administration.* (New York: Harper. 1936. Pp. xiii, 588. $5.)

Mules, W. R. and Laws, O. *Mathematical principles of instalment financing.* (Baltimore: Reese Press. 1936. Pp. 300.)

Myers, G. *America strikes back: a record of contrasts.* (New York: Ives Washburn, distributed by Chemical Found. 1935. Pp. x, 408. $3.75.)

In covering a vast territory and several centuries of business experience, Mr. Myers endeavors to show that financial intrigue and cut-throat competition are not new, nor are they primarily American products. He cites many instances of devious commercial relations, of dishonest manoeuvering and shady ventures. He demonstrates, what many already know, that some of the earlier episodes overshadow recent reprehensible actions in financial manipulation in the United States, if not in dollars, at least in the attempt to defraud and to accumulate graft.

The collection of instances in the book has been a large and ambitious undertaking. The variety of cases is taken from such a wide territory that it is hard to give testimony as to the accuracy of interpretation, or the reliability of the author's appraisal. The burden of the evidence piles up in an impressive way, but the analysis is not always searching. There are many curiosities from the past to strike the reader's fancy; but the more familiar recent episodes are sketchily treated.

Few will deny the main thesis. It is possible that the attempt to urge it now may give an added perspective. It is important to remember that business morality is a complex and changing factor.

Eleanor Lansing Dulles

Nichols, F. G. *Junior business training for economic living.* (New York: Am. Book. 1936. Pp. 687. $1.48.)

OWENS, R. N. and KENNEDY, R. D. *Accounting: elementary theory and practice.* (New York: Van Nostrand. 1936. Pp. vii, 687. $4.)

This text, stated by the authors to be prepared for all classes of students, both professional and non-professional, includes nine parts and six practice sets. In addition to the usual material found in first-year texts, a discussion of "Special problems of the manufacturing concern" comprises Part 5. Principal emphasis is upon technique, and little space is given to reasons and philosophy underlying accepted practice. There are some unfortunate omissions such as failure to discuss or illustrate a surplus reconciliation and failure to consider the special column cash journals which have such wide application to small businesses.

W. P. FISKE

ROWE, J. W. F. *Markets and men: a study of artificial control schemes in some primary industries.* (New York: Macmillan. 1936. Pp. ix, 259. $2.)

The growth of restriction and valorization schemes in the post-war era is regarded by the author as a "truly revolutionary change" in the economic system. The plans adopted for six commodities—coffee, wheat, sugar, American cotton, rubber and tin—are described, followed by an analysis of the economic validity of these types of production controls. Maladjustments in production and demand, rapid technical progress, and the emergence of large excess and obsolescent capacity were the chief causes for the schemes adopted up to 1929; and general decreases in consumption intensified the desire for controls during the depression. Temporary success was attained in some instances; but in most cases the very forces which led to the plans, plus mistakes in management, caused them to fail.

The author concludes that in periods of prosperity, restriction schemes to maintain or raise prices are unsound methods of meeting permanent declines in demand, especially if there is excess or antiquated capacity, or if increases in output by low-cost firms are probable. But restriction is sound if the decline in demand is only temporary and technical progress is slow, since control schemes will preserve the existing capacity for the ultimate needs of the future. In depression, restriction is beneficial because it minimizes cut-throat competition and bankruptcy; and reduction of superfluous capacity will be attained with less strain in the early stages of recovery. Valorization of producers' incomes is desirable insofar as it stabilizes prices and lowers costs. The issue between artificial control and *laissez-faire* is not a clear one; and the relative advantages of the two policies depend upon the particular conditions and the administrative skill to be expected in management of control schemes.

One may ask if high-cost producers will be eliminated at all if the process is postponed until recovery sets in; and it is questionable whether the strain on the economic system is really less in depression, since maintenance of stable prices for some goods may be the cause of more drastic declines in other commodity prices than would otherwise be necessary. Despite these doubts, the book is a stimulating contribution to the study of the economic effects of control schemes.

W. EDWARDS BEACH

SANDAGE, C. H. *Advertising: theory and practice.* (Chicago: Business Pubs. 1936. Pp. xiv, 618. $4.)

SCHMALZ, C. N. *Expenses and profits of food chains in 1934.* Bull. no. 99. (Boston: Harvard Univ. Grad. School of Bus. Admin. 1936. Pp. vi, 50. $1.)

————. *Operating results of department and specialty stores in 1935.* Bull. no. 100. (Boston: Harvard Univ. Grad. School of Bus. Admin. 1936. Pp. vi, 38. $2.50.)

————. *Operating results of department and specialty stores in the Pacific Coast states: 1935.* Bull. no. 102. (Boston: Harvard Univ. Grad. School of Bus. Admin. 1936. Pp. iv, 20. 50c.)

SHAFFNER, F. I. *The problem of investment.* (New York: Wiley. 1936. Pp. viii, 357. $3.)

Addressing those who desire to avoid certain "pitfalls" of recent investment experience, the author attempts to "isolate and study the change-producing forces" in the field of investment since 1920 and to make "appropriate suggestions for economic reform" (p. 345). The forces which are especially analyzed are: (1) the new position of the stockholder in view of the present dispersion of ownership and loss of control of his property, the influence of the banker on the investor's position, and American experience with foreign investments; (2) the plight of the mortgagee and the mortgage bondholder; (3) the problem of the business cycle; and (4) the problem of protecting the stockholder.

After summarily rejecting recognized distinctions between investment and speculation, the author expresses the opinion that the "pragmatic test of the result" is the "only" ground upon which the distinction should rest. The obvious comment upon this is that such hindsight offers no help in anticipating the future which is the *sine qua non* of the investment problem.

Book II gives a convenient summary of some recent tendencies in the investment field, including familiar facts and statistics concerning the ownership and control of corporate property, the well known evils of security and investment trust affiliates of commercial banks, and the unfavorable experience of American foreign investments.

Book III deals with the change in the position of the creditor from title holder to that of lien holder, which is considered a distinct weakening of his position. Recent legislation upheld by the Supreme Court as emergency measures is cited also to show the practically hopeless position of the mortgagee. It is proposed that mortgage bonds, and in fact all corporate bonds, should be abolished in favor of preferred and common stock. In spite of recent evils of new type mortgages, the experience of mortgage creditors where traditional standards were not violated does not lend support to the proposal of abandoning the mortgage as an instrument of conservative investment. Moreover, the well known legal weaknesses of preferred stocks must always restrict them to a class distinctly inferior to mortgage bonds.

Book IV deals with the business cycle and its relation to the investment problem. Considerable effort is spent in demonstrating that this type of business fluctuation is inherent in modern economic organization; and the proposition is advanced upon scanty evidence that business cycles in the future will become more rather than less severe. The author fails to observe the distinction between the normal rhythm of business and the present dislocation of world economy—a distinction which, to say the least, would materially modify his conclusion.

In the final portion of the volume (Book V) are set forth various familiar legal remedies for the protection of stockholders in corporations, especially

the doctrine of trusteeship. The weaknesses of state laws have been largely overcome by the federal Securities act of 1933 and the Stock Exchange act of 1934. The author manifests faith in investment trusts, voting trusts and expert counsel and recommends giving investment trusts a voice in the control of corporations represented in their portfolios, more standardized accounting, minority representation of boards of directors, stricter regulation of holding companies, and federal incorporation.

One looks in vain for the promised "simple investment maxims" as an escape from "antiquarian economics." On the contrary, under present circumstances no "layman" should attempt to handle his own funds.

J. E. Kirshman

Schultz, B. E. *Stock exchange procedure.* (New York: N. Y. Stock Exch. Inst. 1936. Pp. x, 102.)

Simmons, H. *How to make more sales: practical ideas for self-help in selling.* (New York: Harper. 1936. Pp. 168. $2.)

Stabler, W. B. *My father's business: a practical study of business ethics.* (Philadelphia: Univ. of Pennsylvania Press. 1935. Pp. ix, 183.)

Stubbs, E., and others. *Revitalizing the working force.* Production ser. 101. (New York: Am. Manag. Assoc. 1936. Pp. 43. $1.)

Sweeney, H. W. *Stabilized accounting.* (New York: Harper. 1936. Pp. xiii, 219. $3.)

One of the much debated and unsolved problems of accounting is the proper recognition, if any, of cyclical and secular fluctuations in prices. To date American practice has gone no farther than occasional restatements of the balance sheet to reflect important changes in the price level. The income implications have been almost completely neglected. Mr. Sweeney has long been an advocate of continuous adjustments of accounting statements (although not of actual books) on the basis of changes in a general index of prices. This book is a summary of his arguments and an illustration of his techniques. Although many will disagree with Mr. Sweeney as to the practicability of his proposals, few can honestly disagree with the significance of price changes in the development of accounting concepts of capital, income, and proprietorship. Hence economists as well as accountants should be interested in this serious attempt to meet a baffling problem squarely and honestly. From such starts as this develop practical compromises between sound theory and the everyday conditions of record keeping.

W. P. Fiske

Taggart, H. F. *Minimum prices under the NRA.* Michigan bus. stud., vol. vii, no. 3. (Ann Arbor: Univ. of Michigan Bur. of Bus. Res. 1936. Pp. viii, 207. $2.)

This study of minimum price fixation under the NRA contains much that bears significantly on the problems of price control, however they may arise. The minimum price or "cost-protection" provisions of the codes included: (1) general prohibitions of "destructive" competition without establishing standards of reference, (2) procedures for the fixation of minimum prices in cases of emergency, subject to NRA approval, (3) occasional authorization of code authorities to set minimum prices, not based on cost, with or without NRA approval, and (4) direct prohibition of sales below cost.

More than half of the codes forbade sales below the cost of the individual

firm, while in some instances specific minima were set for entire industries, based on such standards as "average" cost, "reasonable" cost, "lowest reasonable" cost, or "lowest representative" cost. Great diversity also characterized the elements to be included in computing cost, as well as the exceptions under which sales below cost were permissible, as, for example, to meet competition, to dispose of sub-standard, obsolete, or distress merchandise or to introduce new products.

Mr. Taggart has criticized the establishment of minimum prices at levels sufficiently high to make them the prevailing prices. Average cost was inherently defective as a basis because by definition some, and perhaps a substantial number, of the firms in the industry concerned could produce profitably at a lower price. Most of the other bases proposed contemplated the establishment of the minimum above the lowest cost currently reported. The author contends that the minimum, if any, should be fixed below the costs of production, even of efficient firms; *i.e.*, it should not assure profits to anyone. It was toward this conception that NRA policy gradually swung; but minimum prices of this sort were not enthusiastically received by industry.

Mr. Taggart's position is that minimum prices fixed at any higher level impair the flexibility of economic adjustments; that they can be made to work only if supplemented by additional controls; and that the administration of prices and other controls cannot be safely entrusted to any interested party. Widespread reliance upon their use would constitute a major step toward the supersession of private, competitive capitalism. He expresses the opinion that the proper objectives of minimum price regulation might be achieved more directly by (1) the strengthening and enforcement of existing laws with respect to unfair methods of competition, wages, hours, methods of production; (2) the wider dissemination of information regarding sales, production, stocks, prices, and costs; (3) the improvement of employer-employee relationships, including the extension of employee organization, and (4) the development of greater regard for the interests and rights of consumers.

A. M. McIsaac

Taylor, A. E. *Foreign investments in the United States.* Dept. of Commerce special circ. no. 417. (Washington: Supt. Docs. 1936. Pp. 12.)

Teele, S. F. *Operating results of department store chains and department store ownership groups: 1929, 1931-1934.* Bull. no. 101. (Boston: Harvard Univ. Grad. School of Bus. Admin. 1936. Pp. iv, 52. $1.)

Tilden, F. *A world in debt.* (New York: Funk and Wagnalls. 1936. Pp. 348. $2.50.)

Willcox, O. W. *Can industry govern itself? An account of ten directed economies.* (New York: Norton. 1936. Pp. 285. $2.75.)

American Institute of Accountants: examination questions prepared by the board of examiners, May, 1932, to November, 1935, inclusive. (New York: Am. Inst. Pub. Co. 1936. Pp. 306.)

American Institute of Accountants: year book, 1935. (Concord, N.H.: Rumford. 1936. Pp. iv, 357.)

The case for industrial organization. Pamph. no. 4. (Washington: Committee for Industrial Organization, 1001 15th St. N.W. Pp. 47. 10c.)

Commodity Exchange act [Grain Futures act (U.S.C., 1934, ed., title 7, secs. 1-17), as amended by the Act of June 15, 1936 (Public, no. 675, 74th Congress)]. (Washington: Supt. Docs. 1936. Pp. 16. 5c.)

Consumer market data handbook: 1936. Market res. ser. no. 15. (Washington: Supt. Docs. 1936. 50c.)

Federal Trade Commission act amendments, hearings, 74th Congress, end session, on S. 3744, May 27-29, 1936. (Washington: Supt. Docs. 1936. Pp. iii, 97. 10c.)

More facts on technology and employment: a sequel to Ten facts on technology and employment. (Chicago: Machinery and Allied Products Inst., 221 N. La Salle St. 1936. Pp. 26. Gratis.)

Mortality of retail stores in Colorado, 1926-1935. Bus. stud. no. 82. (Denver: Univ. of Denver Bur. of Bus. and Soc. Res. 1936. Pp. 12.)

Oliphant's studies in securities. 10th annual issue. (New York: Jas. H. Oliphant. 1936. Pp. 206.)

Operating results of Ohio wholesale grocers—year 1934. (Columbus: Ohio State Univ. Bur. of Bus. Res. 1936. Pp. vii, 57. 50c.)

Proceedings of first managers convention, New York, July 29-August 2, 1935. (New York: Fenner and Beane. 1935. Pp. 344.)

Provisions of federal laws relating to the Securities act of 1933 as amended. (Washington: Supt. Docs. 1936. Pp. 5. 5c.)

Works Progress Administration: report on the works program. (Washington: Supt. Docs. 1936. Pp. 111.)

Capital and Capitalistic Organization

Public Utility Regulation and the So-Called Sliding Scale: A Study of the Sliding Scale as a Means of Encouraging and Rewarding Efficiency in the Management of Regulated Monopolies. By IRVIN BUSSING. (New York: Columbia Univ. Press. 1936. Pp. 174. $2.75.)

This is a historical and statistical study of British and American experience in the application of the sliding scale to gas and electric companies with special emphasis on the Washington plan. Two chapters are devoted to British legislation and practice; the statistics for British electric companies extend through 1931, and for gas companies through 1933. The development of the sliding scale in electric companies since 1926, based largely upon an earlier but unpublished study of Dr. S. P. Langhoff, and the analysis of the basic price, as contrasted with the older standard price, system represent contributions to our understanding of British methods.

A brief account is given of various sliding-scale systems of rate making as they have been applied in Toronto, Boston, Dallas, Connersville, Memphis, Philadelphia, Houston and Detroit. The remaining space, approximately 40 per cent of the total, is given to a detailed description and statistical analysis of the Washington plan. This is the most complete account available and fills a real need in the literature. There are 30 tables, a short critical summary, a brief appendix, a selected bibliography and an index.

Throughout his analysis Dr. Bussing displays a wholesome scepticism toward the claimed merits of the sliding scale. He points out in numerous instances the questionable motives underlying its adoption, its profitable-

ness to private interests, its failure to serve public welfare, its abandonment by private monopolists when it ceases to maximize profits, its failure to improve efficiency, and its logical defects. The historical and statistical material adduced, while not exhaustive, is at least sufficient to justify this attitude. This critical awareness is especially evident in chapters 9 and 10.

When, however, he attempts to generalize and to appraise the practical value of this system of regulation he falls into serious error. He implies, without proving it, that the sliding scale is "a means of encouraging and rewarding efficiency"; he says that it is a method "designed to overcome this deficiency" in the present system; he concludes that "the plan patently is imperfect; but as its weaknesses are chiefly administrative it will become a better method of regulation in proportion as more companies and commissions give attention to it." It is impossible to reconcile this last statement with his evidence or with his own previous suggestions that the defects of the sliding scale are deep seated and fundamental.

This inconsistency is perhaps attributable to Dr. Bussing's failure to use theoretical analysis to supplement his descriptive material. Had this been done it might well have appeared that the sliding scale is merely a monopolistic device to maximize profits within the framework of public regulation during a period of temporarily decreasing costs. The claim that it will reduce rates, encourage efficiency and make regulation automatic is specious rationalization invoked by monopolists to justify their position. Such arguments, while superficially plausible, should not deceive a professional economist or lead him to advocate as publicly desirable an economic policy that derives its motivation from the desire for monopoly gains.

Horace M. Gray

University of Illinois

NEW BOOKS

Aspinwall, R. S. *The liberation of capitalism.* Rev. (Detroit: Lincoln Manuf. Co. 1936. Pp. 53.)

Baker, J. C. and Malott, D. W. *Introduction to corporate finance.* (New York: McGraw-Hill. 1936. Pp. xxii, 382. $3.)

George, E. B. *The Federal Trade Commission decision in the Goodyear case, with supplementary comments on its relation to the Robinson-Patman act.* Reprinted from *Dun and Bradstreet Monthly Review,* April, May and June, 1936. (New York: Dun and Bradstreet. 1936. Pp. 19.)

Hunt, B. C. *The development of the business corporation in England, 1800-1867.* Harvard econ. stud. vol. lii. (Cambridge: Harvard Univ. Press. 1936. Pp. xii, 182. $2.50.)

Pirou, G. *La crise du capitalisme.* (Paris: Recueil Sirey. 1936. Pp. 200. 15 fr.)

Professor Pirou of the University of Paris is the author of a number of books and pamphlets on economic subjects. This second edition of the present book is issued at the request of Giuseppi Battai, the leader in the formation

of the first plans of the economic system of the Italian fascists. Professor Pirou, however, states that he is not following any of the current doctrinaire theories, but is endeavoring to make an objective study of the actual conditions and that his conclusions will probably satisfy neither conservatives nor radicals.

The subject is discussed under the following heads: (1) Criticism of capitalism; (2) Towards a managed economy; (3) Dangers of a managed economy; (4) Defense of capitalism; (5) Summation of the controversy; (6) Capitalism and neo-socialism; (7) Capitalism and nationalism; (8) Prospects for the future. There are also two appendices bringing the discussion down to 1936. The idea back of its publication is that similar books should be written in various countries by different writers reflecting actual conditions and seeming trends. Some of the conclusions presented are of interest. Professor Pirou believes that the principal lesson to be drawn from a study of contemporary conditions both in France and other countries is that liberal capitalism has been a failure. This is because liberal capitalism corresponds to a phase of history which has now ended. The main fault of capitalism, he says, is that during the last fifty years, the rate of wages has been less than that of production and profit, leading to insufficient purchasing power and consumption by the masses; it has also failed on the ethical and social side. In a managed economy the state takes over the job of adjusting production to consumption and at the same time the regulation of prices. The failure of various laws in different countries is cited. The need is the restraint of capitalism. So far as France is concerned, unless another general war breaks out, he looks for the gradual emergence of the new out of the old economy. The book is a work of science and not of propaganda, we are told; and, whether or not one agrees with the author, it is interesting reading.

GEORGE M. JANES

POND, O. L. *Supplement to law of public utilities, including all important decisions reported to October 1, 1935.* Vols. I-III. (Indianapolis: Bobbs-Merrill. 1935.)

RICHARDS, H. S. *Cases on private corporations, selected from decisions of English and American courts.* 3rd ed. by SVEINBJORN JOHNSON. (St. Paul: West Pub. Co. 1936. Pp. lxiv, 968.)

SMITH, A. D. H. *Men who run America: a study of the capitalistic system and its trends based on thirty case histories.* (Indianapolis: Bobbs-Merrill. 1936. Pp. 361. $3.)

SMITH, Y. B., and others, editors. *Cases on the law of public utilities.* 2nd ed. (St. Paul: West Pub. Co. 1936. Pp. 1147. $6.)

SMITY, F. W. *The case for private enterprise (public utilities).* (Princeton: Princeton Univ. 1936. Pp. 20. $1.)

SPURR, H. C., editor. *Public utilities reports (new series), containing decisions of the regulatory commissions and of state and federal courts.* Vol. 9, 1935. (Washington: Public Util. Rep. Inc. 1935. Pp. xxxi, 608.)

WALTERSDORF, M. C. *Regulation of public utilities in New Jersey.* (Baltimore: Waverly. 1936. Pp. viii, 225. $2.50.)

In this study, which is organized largely along functional or topical lines, Professor Waltersdorf presents in detail the organization and administration of the public utility regulatory machinery of the state of New Jersey. Special consideration is accorded questions of service, depreciation, rate of return, valuation, accounting, security issues, holding companies and rates. The study is

concluded with a summary and appraisal of state control. The text material is usefully supplemented by footnotes and references and by a bibliography, a table of cases cited and an index.

The author concludes that the early expectations of those who favored the establishment of commission control have not yet been realized. Prior to 1929, the consuming public was not protected, speculation was prevalent, and "regulation suffered to a marked degree" because of a "laxity of public interest, adverse court decisions, inadequacies of the existing laws, lack of federal control to supplement state regulation, and the general inability of the system of control to cope effectively with the new conditions" (p. 180).

He suggests that the Commission should place greater emphasis on planning and administration and less upon its judicial rôle; furthermore, the state should assist in the development of interstate controls by the federal government. Public ownership is mentioned as a possible alternative, but the author, after declining to take sides on the issue, falls into a common error by assuming that public contributions by municipally owned utilities are measured solely by taxes paid and that "under tax exempt conditions municipally owned plants fall short of meeting their full costs of rendering the service" (p. 187).

Where public ownership is conspicuous, as in the water and electric utilities, numerous municipal plants assume debt service on obligations incurred for general municipal purposes; some make cash contributions to the general fund or assist in the financing of public works and unemployment relief; and many render service for street lighting, water pumping and the lighting of public buildings and hospitals free of charge or below cost. These public contributions should be considered along with taxes (if any) before a fair comparison can be made with the burden of taxes paid by privately owned utilities.

Other remedial proposals are designed to establish a definite standard for determining the rate base, to reward management for efficient operation, to control more fully operating expenses, to reduce the intervention by the courts into regulatory affairs and to improve the finances and personnel of the Commission.

RALPH L. DEWEY

Comparative rates of publicly and privately owned electric utilities. Fed. Power Comm. rate ser. no. 5. (Washington: Supt. Docs. 1936. Pp. iv, 40. 15c.)

Rural electric service: monthly bills, rural line construction costs and practices (February 1, 1935). Fed. Power Comm. rate ser. no. 8. (Washington: Supt. Docs. 1936. Pp. v, 133. 25c.)

Labor and Labor Organizations

Seasonal Variations in Employment. By CHRISTOPHER T. SAUNDERS. (New York: Longmans Green. 1936. Pp. xii, 311. $6.00.)

As Mr. Saunders notes, unemployment is not a homogeneous problem with a single explanation and solution. The spectacular extent and effects of unemployment due to cyclical fluctuations in business activity have caused probably a disproportionate emphasis to be placed on that aspect of the problem. In lesser degree the same has been true of unemployment due to secular movements or long-term changes in economic structure and of

that due to the short period or casual fluctuations. The less spectacular but more persistent seasonal unemployment has been largely neglected. In this country we have a few substantial studies of unemployment due to seasonal variations in industry and trade, but the work under review is the first full-length analysis of the problem in Great Britain.

The extent of seasonal variations in employment in Great Britain can be more accurately determined than in any other country due to the detailed and relatively complete statistics derived from the operation of the unemployment insurance system of that country. Mr. Saunders has made full and excellent use of this material. By statistical analysis of these data he isolates the seasonal variation from the cyclical and secular fluctuations and arrives at relatively exact estimates of the extent of seasonal unemployment in Great Britain.

The major part of the book is devoted to a detailed and careful study of seasonal variations in specific industries. The industries selected for specific attention are those most subject to seasonal fluctuations—automobile manufacturing and allied lines, the clothing industry, the construction industry, and agriculture. In each Mr. Saunders describes the extent of seasonal unemployment, seeks its causes, points out its effects, and discusses the prospects and methods of stabilization. The concluding chapters of his work synthesize the specific studies and examine the problem, its explanation and solution as a whole.

That the problem is worthy of the serious study Mr. Saunders devotes to it is indicated by the fact that his calculations show seasonal variations to be responsible for approximately 18 per cent of the total unemployment in Great Britain. Yet he points out that, in percentage terms, seasonal unemployment in Great Britain is less than one-half that in the United States, and about one-fourth that in Germany. To eliminate cyclical and secular unemployment would leave the problem far from solved if unemployment due to seasonal variations is left untouched.

Seasonal unemployment is a more stubborn problem than that caused by cyclical or secular fluctuations in industry and business. The latter are largely, if not entirely, due to economic factors, whereas the former is ultimately due in most cases to natural factors. Yet Saunders believes that the problem of seasonal irregularity can be successfully attacked by the co-operative efforts of government, employers and workers' organizations. Though natural factors are the ultimate cause, the immediate causes he finds largely in the buying habits of consumers and the organization of industry and the labor market. These things are subject to human control, and though difficult, it is not impossible to change and control them.

In his orthodox treatment of the problem, Mr. Saunders' analysis of the causes, effects and remedies is similar to that of American studies of seasonal unemployment. Nevertheless his use of more complete statistical ma-

terial and his study of British industry make his book a distinct and stimulating contribution to this somewhat neglected aspect of the problem.

E. E. HALE

University of Texas

Wages in Sweden, 1860-1930. By GOSTA BAGGE, ERIK LUNDBERG and INGVAR SVENNILSON. Part II. *Government and Municipal Services, Agriculture and Forestry, the General Movement of Wages in Sweden, 1860-1930.* (London: P. S. King. 1935. Pp. xix, 393.)

This is the concluding volume of the study of wages in Sweden during the 70 years from 1860 to 1930, the first volume of which I reviewed in this journal for September, 1935 (pp. 558-560). Whereas the earlier volume covered the movement of wages in manufacturing and mining, this covers public employment (including the state railways), agriculture and forestry. It also includes a valuable general section on the main changes in the labor market, the trend of wages and production, with a study of secular trends and short-time fluctuations together with an interesting analysis of local differences in wages. Money-wages per day in agriculture are shown to have risen from a relative of 37 in 1865-1869 to 100 for the years 1910-1913. By 1928 they were approximately 70 per cent higher than they had been in 1911, making a total gain of about 350 per cent since 1860. In forestry, the increase was very much greater than this amongst the maintenance men, and appreciably less amongst the loggers. Since the cost of living in 1930 was approximately double what it had been in 1860, real wages in these fields more than doubled during this period of 70 years. The increase in the real hourly earnings of unskilled workers in municipal employment between 1890 and 1930 was, on the other hand, approximately 135 per cent.

One of the most valuable features of the whole study is the comparison of the indexes of: (1) average value added in manufacturing per worker, and (2) average annual earnings per worker in manufacturing. A common base, namely, 1910-1913, is naturally used for both indexes. By dividing the former index by the latter, the authors obtain a measurement of the comparative movements of the two series. Although the data for the value added during the early years are somewhat defective, the results indicate a very real increase during the period for 1860 to 1900 in the movement of average real earnings as compared with the average value added.

During the decade of the '60's, the ratio of $\left(\frac{\text{av. value product}}{\text{av. annual earnings}}\right)$ was 140, whereas during the '90's, it was only 84. During the next 17 years, however, it rose fairly steadily to 1914, when it was 109, and then advanced rapidly to 150 in 1917. There was then a recession to 110 in 1919, and

after another upward movement to 134 in 1922, the ratio fell to 112 in 1926. After a rise of 4 points in 1927 it fell back to the former figure of 112 during the succeeding years of 1928-1930. The authors suggest that up to 1913 the changes in "the ratio of value product to wages" seem to be essentially similar to the changes in the prices of the product. This would mean that the trend of wages approximately agreed with the changes in physical productivity or moved as though they were based on unchanged piece-rates. It is also possible that the development of industries, such as electrical power and pulp and paper, which require a higher than average ratio of capital to labor, may also have accounted for at least a portion of the later upward drift of this ratio.

The authors also give estimates of the amounts of current investment each year. If and when these are deflated to allow for changes in the cost of capital goods and when the total is found for a given base year, we shall have an index of total capital in these lines which will be very valuable for inductive work in the field of distribution.

Taken as a whole, these two volumes—with Myrdal's earlier work on the cost of living from 1830 to 1930—form a magnificent contribution to economic history and to labor problems. They are worthy to rank with Simiand's three volume work *Le Salaire* on French wages. I have long believed that Scandinavian economics, as represented by Wicksell, Cassel, Ohlin, Frisch, and others, is on a higher theoretical level than that of any other section of the world. These volumes show that the economic faculties of these universities are equally masters of patient induction. While a more intimate marriage of the two methods is still needed, these men seem to be nearer that happy result than any other set of which I know. America and England have much to learn from these noble countries of the North, and our economists can profit from the example set us by the economists of these lands.

PAUL H. DOUGLAS

University of Chicago

NEW BOOKS

CHAMBERS, W. *Labor unions and the public.* (New York: Coward-McCann. 1936. Pp. 278. $2.)

DONOHOE, H. A. *Collective bargaining under the NIRA.* A dissertation. (Washington: Catholic Univ. of America. 1935. Pp. xiii, 130.)

FAIRLEY, L. *The company union in plan and practice.* (New York: Affiliated Schools for Workers. 1936. Pp. 57.)

Although designed primarily for workers' study groups and thoroughly adapted to that purpose, this pamphlet is by no means lacking in usefulness to anyone interested in the problem of the company union *versus* true collective bargaining.

The pamphlet discusses the history, forms, and functions of company unions, describes in detail the organization of a typical company union. and gives a

careful appraisal of the plan. Special attention is paid to the effect of recent labor laws on this type of organization.

Dr. Fairley does not attempt to conceal his hostility to company unions, and presents a convincing case against them. He shows clearly the ways in which employers dominate them, and demonstrates persuasively their ineffectiveness as bargaining agencies, and their failure to form any part of the true labor movement. The case against the company union is well supported by numerous illustrations from actual instances. Yet in spite of his obvious disapproval, the author does not hesitate to discuss at some length the ways in which company unions may be of value to the worker in the settlement of petty grievances.

In the opinion of Dr. Fairley, the company union is a "parasite" on the trade-union movement which can be eliminated only by a "militant labor movement."

WALTER N. BRECKENRIDGE

FOSTER, W. Z. *Industrial unionism.* (New York: Workers Lib. Pubs. 1936. Pp. 48. 5c.)

JOHNSON, E. M. *Interstate compacts on labour legislation in the United States.* Reprinted from *International Labour Review,* June, 1936. (Geneva: Internat. Labour Office. Washington: Internat. Labor Org. 1936. Pp. 28. 15c.)

LEWIS, J. L. *The future of organized labor.* C. I. O. pamph. no. 2. (Washington: Committee for Industrial Org. 5c.)

MILLER, S., JR., editor. *What the International Labor Organization means to America.* (New York: Columbia Univ. Press. 1936. Pp. xiii, 108. $1.50.)

It is the opinion of the editor of this volume that:

"Our participation in the annual International Labor Conference, as well as our collaboration with the research work of the International Labor Office is pregnant with possibilities. But what those possibilities are, what obligations we are assuming, what service we can expect to flow out of our association with this institution are questions which every thoughtful citizen, whether governmental official, industrialist, or worker, would like to know" (p. vi).

This book is an attempt to answer these questions. It is a collection of 10 lectures delivered at the University of Virginia Institute of Public Affairs, in July, 1935. The publication merits the serious attention especially of students of international economic relations; for undoubtedly the International Labor Organization is the *first* structure to be created which possesses the basic elements for making international economic collaboration a possibility. This is the real significance of the I.L.O. quite aside from what it has accomplished up to the present time.

The 10 lectures treat such aspects of the subject as the origin of the I.L.O., the importance of standards and international action in the field of labor, and the significance of American coöperation in the work of the I.L.O. These lectures, given by men who speak with authority upon the topics which they have discussed, provide us with a concise and informative source. It must, however, be emphasized that a 6-page discussion, for example, of the "Significance of American membership in the I.L.O. to employers" is not altogether adequate.

C. J. RATZLAFF

MOLOTOV, V. M. *What is Stakhanovism?* (New York: Internat. Pubs. 1936. Pp. 31. 5c.)

MUKHTAR, A. *Trade unionism and labour disputes in India.* (New York: Longmans Green. 1935. Pp. vii, 251. $4.50.)

This book begins with a concise survey of the history of labor disputes in Indian industry from the first faint stirrings in the latter part of the past century to 1933. This is followed by a chapter on the legal position showing how greatly India profited on this score by England's experience. (In the appendices there are copies of the significant Acts.) Another chapter gives an all too brief account of the remarkable success of the Ahmedahad Textile Labour Association and still another treats of the attempts at coördination of the union movement as a whole and at coöperation with the International Labour Office, the Asiatic Labour Conference, and the British. The final chapter of nearly 50 pages, in keeping with its title, "Miscellaneous remarks," is a somewhat philosophical disquisition on various aspects of the labor movement often pretty far removed from India.

This is the most concise and complete account of the more formal and political aspects of the Trade Union movement in India. Within these limits it is very well done. Yet it fails to give what western readers most want and need, an account in terms of Indian psychology of the proletarian viewpoint. The book deals with a subject dependent upon India's contact with the West —and one in which her connection with England has been most demonstrably fortunate. But the Indian people, because of their different stage of economic and political development, their differing economic circumstances, and widely varying cultural and religious traditions, must find much that is incongruous in industrialism and this auxiliary alien institution. The present reviewer hoped that an Indian writer would raise the *purdah,* as it were, and reveal what to the Occidental is so interesting and illuminating, but also so often deeply hidden. While the book is most useful it is only as a somewhat detached and technical treatment of a subject which deserved more.

D. H. BUCHANAN

SELEKMAN, B. M. *Law and labor relations: a study of the Industrial Disputes Investigation act of Canada.* (Boston: Harvard Univ. Grad. School of Bus. Admin. 1936. Pp. v, 65. $1.)

The present dissension in the United States regarding the proper rôle of government in labor disputes gives special significance to this excellent study of the Canadian Industrial Disputes Investigation act and its operation. Recognizing fully that methods which prove successful in one country may be quite unsuccessful in another, Dr. Selekman still feels that there is sufficient parallelism between Canada and the United States to make the experience of one valuable to the other.

Dr. Selekman discusses carefully the original Act and its numerous amendments, and in an appendix gives the full text of the amended Act. Convincing evidence of the success of the Act is to be found in the record of its achievements, and in the changing attitude of both labor and employers from one of hostility to one of strong support.

The most enlightening chapters of the study are the two thorough and analytical ones which consider the basis of board decisions, and describe the gradual enlargement of the scope of the Act by administrative procedure. Emphasis is placed upon the power of the Act, intelligently administered as it has been, to permit "the evolving customs of industry to receive formal recognition as the standards toward which practice must aim."

In his final chapter, the author discusses recent labor legislation in the United States, and applies some of the conclusions derived from a study of Canada's experience to our present problem.

WALTER N. BRECKENRIDGE

WALKER, E. R. *Unemployment policy, with special reference to Australia.* (Sydney: Angus and Robertson. 1936. Pp. xi, 258. 5s.)

WILCOX, J. K., compiler. *Unemployment relief documents: guide to the official publications and releases of F.E.R.A. and the forty-eight state relief agencies.* (New York: Wilson. 1936. Pp. 95. $1.60.)

Annual report of the chief inspector of factories and workshops for the year 1935. (London: H. M. Stationery Office. 1936. Pp. 106. 2s.)

Handbook of labor statistics. 1936 ed. Bur. of Labor Stat. bull. 616. (Washington: Supt. Docs. 1936. Pp. 1151. $1.25.)

Holidays with pay for seamen. 21st (maritime) sess., October, 1936, rep. v. (Geneva: Internat. Labour Office. 1936. Pp. 69.)

Hours of work on board ship and manning. 21st (maritime) sess., October, 1936, rep. i (A and B.) (Geneva: Internat. Labour Office. 1936. Pp. 179.)

Industrial unionism: the vital problem of organized labor. C. I. O. pamph. no. 1. (Washington: Committee for Industrial Org. Pp. 31. 10c.)

Industrial unions mean unity: our answer to President Green. C. I. O. pamph. no. 3. (Washington: Committee for Industrial Org. Pp. 23. 10c.)

Labour and the defence of peace. (London: Nat. Council of Labour. 1936. Pp. 11. 1½ d.)

Labor displacement: investigation of unemployment caused by labor-saving devices in industry. Hearings before subcommittee, 74th Congress, 2nd session, on H. Res. 49, Feb. 13-Mar. 2, 1936. (Washington: Supt. Docs. 1936. Pp. ii, 119. 10c.)

Labor fact book III. Prepared by Labor Research Association. (New York: Internat. Pubs. 1936. Pp. 223. $2.)

As its name implies, this is primarily a book of facts relating to labor. It is a companion volume to *Labor Fact Books I* and *II,* published in 1931 and 1934, rather than a revision of data published in the earlier *Fact Books.* Regarding labor as all workers, not merely as organized workers, *Labor Fact Book* covers a variety of subjects. Thus, we find such diverse topics treated as money and banking, the New Deal, unemployment, strikes, civil liberties, the farmer, professional workers, the Soviet Union. Each subject is discussed in terms of its effects upon workers. The chapter on professional workers was supplied by the Interprofessional Association and that on farmers and farm workers by Farm Research Bureau, Inc. The balance of the book is the product of Labor Research Association.

Since the subject matter covered is wide, the treatment is not exhaustive. Nevertheless a number of factual tables appear. The chapter on professional workers gives a list of trade unions and professional associations with a brief description of each. The chapter on trends in the labor movement includes the names of all those independent unions which have recently been chartered by the American Federation of Labor and of those which remain independent. There is unfortunately no list of unions previously affiliated with the A. F. of L. Six national organizations of farmers are described. Unions of sharecroppers and tenant farmers are mentioned only in connection with their strike actions, with a reference to *Labor Fact Book II* for further description of their back-

ground. Under civil rights and fascist trends, 31 reactionary agencies are described, 26 of which are smaller organizations. One of the most interesting sections of this chapter is a list of the names, ages and occupations of 49 men and women killed in labor disputes in 1934 and 39 killed in 1935, together with a statement of where or by whom they were killed. There is also a list of the important strikes of 1934 and 1935, giving the number of workers involved. This table is a continuation of similar tables in *Labor Fact Books I* and *II*, the tables in the three volumes covering all important strikes since 1872. The number of strikes per year, 1931-1935, is shown in a separate table, the increase being from 808 in 1932 to 1,898 in 1935. The strikes of 1935, however, were somewhat smaller than those of 1934, fewer workers being involved in more strikes.

The balance of the book consists of interpretation of these facts and of statistics shown in supplementary text tables and of discussion of the political strategy of the Communist Party. The latter subject is treated in a short chapter covering only 8 pages, the "United Front." The central theme of the chapter is based on a quotation from a speech by the Bulgarian Communist leader, Dimitroff, at the Seventh World Congress of the Communist International in 1935: "The immediate task of the international proletarian movement: the establishment of unity of action amongst all sections of the working class in the struggle against fascism." This chapter suffers from brevity, such important topics as Peoples' Fronts of France and Spain being accorded only one paragraph each.

CAROLINE WHITNEY

Labour organization in Canada: twenty-fifth annual report for the calendar year 1935. (Ottawa: H. M. Stationery Office. 1936. Pp. 223. 50c.)

New York and federal unemployment insurance. (Chicago: Commerce Clearing House. 1936. Pp. 118. $1.)

Reduction of hours of work in the textile industry. Internat. Labour Conf., 23rd sess., questionnaire ii. (Geneva: Internat. Labour Office. 1936. Pp. 47.)

Year-book of labour statistics, 1935-36. First year of issue. (Geneva: Internat. Labour Office. 1936. Pp. viii, 227. $1.50.)

Money, Prices, Credit and Banking

Is There Enough Gold? By CHARLES O. HARDY. (Washington: Brookings Institution. 1936. Pp. x, 212. $1.50.)

The general theme of this book is the adequacy of the world's gold supply to sustain the existing price level. Through the 1920's the rather pessimistic writings of Cassel, Edie and Kitchin, and after 1930 of Loveday, Strakosch, Woytinsky, the Gold Delegation of the Financial Committee of the League of Nations, and Warren and Pearson gave an indisputable impression that the world faced a falling price level, or even utter collapse, if it stuck to the gold standard of pre-war character. Certain world financial conferences accepted this conclusion and on the basis of it recommended the conserving of gold and the taking of other measures that would postpone the evil day. Moreover, many an interpreter of the current depression

made the inadequacy of gold—through maldistribution, hoarding and wasteful use and through insufficient production—a prominent causal factor; and the Roosevelt Administration, advised by such interpreters, swallowed the idea without question and based its monetary policy in large part on it.

There is no question, therefore, that Dr. Hardy has attacked an important question. For the time being there is a sort of lull in discussion of it. Public attention has been diverted to other remedies for the depression; the lower price level and the low state of industrial activity mean less need of monetary gold; most countries have deserted the gold standard; the supply of gold has been increased by devaluation, stimulated production, and a flow of gold from India. From the point of view of both demand and supply of gold the threat of a falling price level is postponed and the sense of danger lessened. It will come to the front again as soon as the world turns to a restoration of the gold standard.

The two general conclusions of the Hardy study are: "first, that even in 1929 there was no justification for the pessimism that prevailed about the gold supply in prospect over the next decade; second, that in the light of new developments since that time, together with fuller knowledge of what the conditions then were, the real risk to be guarded against in planning a restoration of the gold standard is that of an excessive supply of gold." If the author satisfactorily proves these two contentions the high significance of the book issued at this timely juncture can be sensed by all. In any case it will give pause to and temper the type of headlong policy that has characterized the past decade.

The book is wholly devoted to showing that monetary gold supply is not the all-determining factor of price level changes which Warren and others allege; that the formulae and data employed by Cassel, Edie, Warren and others in computing the supply of gold and the need for gold are defective and inconclusive; and that the depression cannot be explained as due to inadequate gold supply. There is no pretense of giving a positive theory of money; the book is primarily negative, adversely critical of the writers who have been preaching the "scarcity-of-gold" doctrine; probably the nearest approach to what are the author's theories of money is his statement of "objectives" and "assumptions" in chapter 1, in which he defines the tests of adequacy and the basic assumptions underlying his investigation.

The author makes it a point to apply the same methods of investigation as are used by the pessimistic writers whose conclusions he is testing, and shows either that their data are inadequate, misinterpreted, or inapplicable or that their statistical technique is faulty and does not warrant the conclusions reached.

The book consists of three parts:

Part I. The Adequacy of the Gold Supply

This is an excellent and careful study of the production of gold, of its monetary and non-monetary consumption, and of the relative distribution of monetary gold among the nations. The estimates of past and future production of gold made by Kitchin, the Gold Delegation, Edie and others are examined. In the light of developments since these pessimistic studies were made, the author's conclusions are that the above estimates "greatly exaggerated the prospect of an early and drastic decline of the world's gold mining industry, and particularly of the output of the Transvaal; . . . that there was no sound reason in 1929 for anticipating any decline of world production in the decade of the thirties, assuming a continuation of the 1929 price level; . . . that the exploratory work that has been done under the combined stimulus of widespread unemployment and exchange depreciation, the increase in the capacity of mines and crushing mills, and the conservation of higher grade ore, will all bear fruit for many years" in a substantially larger output—"very much larger than that indicated by the official and private estimates which have been accepted in the past as authoritative."

The study of supply and demand of monetary gold leads to the conclusions that the declining prices of 1925-29 and the collapse of 1929-31 are not to be explained in terms of an inadequate gold supply; that there was no basis for the fear of a significant shrinkage in the world's output of gold during the thirties; that the danger was rather "in the steady mounting of the reserve requirements on the two assumptions of a fixed percentage of reserves and a need for sufficient money to maintain the wholesale price level in the face of the increasing productivity of industry."

As for the mal-distribution of gold among the countries of the world *before 1924,* the author finds little evidence to support the theory that it caused contraction in the countries losing it or expansion in the countries gaining it; and *between 1924 and 1930* there was no net inflow of gold into the United States. He also doubts that "the surplus gold will redistribute itself through the operation of ordinary commercial and investment forces," and sees "no reason to anticipate that a general stabilization would be accompanied or followed by a rational redistribution of the gold stock, if the matter were left to the operation of ordinary trade and credit forces."

This section of the book closes with a condemnation of the further production of gold on its present scale as an utter social waste, and with a proposal to segregate the existing gold reserves of central banks in two parts, only one of which would be allowed to grow—at a proper secular pace. The proposal has merit, but under world political conditions it is not feasible.

Part II. The Warren-Pearson Price Theory

This Part was published a year ago as a separate preliminary pamphlet because the current interest in the subject was high. It contrasts the method employed by these authors for the *pre-war period*—which is statistical, with no effort to investigate the reasons for the relationships found—which explains price changes as due to changes in the *supply* of gold, and the method for the *post-war period*—which is "historical narrative with categorical statements as to the causal relationships . . . (with) no attempt to support the historical generalizations by any statistical correlation whatever," and in which the "analysis runs almost entirely in terms of immeasurable, or at least unmeasured, changes in *demand*."

The book is an investigation "to determine whether either the pre-war or the post-war analysis offers a reasonable explanation of the price history of the period to which it refers." The general finding is in the negative.

Hardy criticizes the statistical methods employed by Warren and Pearson, first, for "stressing those parts of the evidence which support their conclusion and slurring over those parts which seem to contradict it," and second, for the "multiplicity of inconsistent findings"—inconsistencies which the authors do not seem to perceive to exist. Among the other faults are that "for at least half the period covered, the data for world volume of production are wholly inadequate"; that indexes of wholesale commodity prices are used as measures of "the general price level"; that as to comparison of the "ratio of the world's monetary gold stock to world physical volume of production, on the one hand, and the fluctuations of British wholesale prices, on the other," from 1839 to 1914, their conclusions are "definitely true for about 12 out of the 75 years, definitely untrue for about 22, and only roughly true for the other 41." Numerous other comparisons are shown to have about the same degree of validity. "The method employed in all these comparisons is unsound, and the conclusions are much more sweeping than the evidence justifies." "A serious omission is the failure to make allowance for the effect of wars on the price level." This factor is quite as influential as gold.

As for the *war period,* "granting that the lessened demand for gold affected its value, such an explanation of the war-time price increases is clearly inadequate, since it completely ignores such factors as the wholesale expansion of credit." The *post-war period* is divided into periods by Dr. Hardy to determine whether the "demand for gold" explains the price movements. In the first period 1919-24, the Warren theory that "the value of gold was being influenced by the accumulation of stocks of gold in preparation for the restoration of the gold standards is entirely erroneous. There were no such accumulations. . . ." In the second period 1924-28 "there was some

demand of the sort . . . though . . . it is not likely that it had any influence on commodity prices," because it did not require any contraction of credit by those countries which lost it. In the third period 1928-29 "the world credit situation was dominated by the policies of France and the United States. The Warren-Pearson characterization fits the French part of the story fairly plausibly, but the American policy, which was the most important factor in the so-called 'demand' for gold, must be explained in a totally different way," for it was our stock market boom that drew funds to our shore. Other countries tried to stop the flow of gold to the United States and France. "It is a mere juggling of words to call this action an expression of an increased demand for gold, . . . pressure (due) to the restoration of the gold standard. . . . As for the further price declines of 1931-33, gold shortage is one of the least plausible of many explanatory hypotheses that have been advanced," for reserves have been superabundant, and especially so in the United States, and the link between gold and prices was cut when the leading countries left the gold standard.

Part III. Appendices

There are three extensive appendices, the leading one being "The Myth of 1849." Dr. Rufus Tucker's article of that title published in the *Journal of Political Economy* in 1934 is here republished. It consists of an analysis of the existing index numbers to determine whether they are real measures of prices around 1849, what are their defects, and which are the better. The Sauerbech index is a particular target. The author constructs an index, using data employed in the old indexes, so far as possible, which eliminates the objections to the old indexes. His general conclusion is that there is no statistical evidence that the discoveries of gold around 1849 had any effect in raising the commodity price level during the next decade, "but only at most a further slowing-up of the slow down-trend that had been going on since 1925 and a damping of the cyclical swings." He is disposed to minimize the effect of gold supply on prices and feels that wars are a much more influential factor.

In general, Dr. Hardy slaughters, with the proponents' own weapons and on their own ground, certain notions that have had altogether too great acceptance and influence on world monetary policy in recent years. In this he is doing a real service not only to the harassed world but to statistics and economics. He drives home the danger of statistics in the hands of incautious, wishful, and ambitious advocates, and still more the danger of the employment of poor and insufficient data and of mere correlation of time series in *proof* of any theory.

Ray B. Westerfield

Yale University

The Behavior of Money: Exploratory Studies. By JAMES W. ANGELL. (New York: McGraw-Hill. 1936. Pp. xiv, 207. $3.00.)

This book is essentially a collection of four separate statistical studies bearing upon the relation of currency to bank deposits, changes in the geographic distribution of circulating deposits, the exchange velocity of circulating deposits and the circular velocity of money. Some conclusions of the studies may be summarized as follows:

The ratios between currency and both classes of deposits show a persistent downward movement from 1890 to 1934, interrupted only by the wartime rise and the currency hoarding of 1930-33. Currency moves in close relation to measures of retail expenditures and small individual incomes, but at major turning points it moves simultaneously or with a slight lag.

The *relative* volumes of circulating deposits in the various federal reserve districts shifted materially in the period 1919-1934. It is a plausible suggestion that the relative volume of circulating deposits varies with the relative volume of business the district carries on. The country is neither characteristically homogeneous in its reaction to broad banking developments nor characteristically heterogeneous.

The index of exchange velocity for 140 cities outside New York increased substantially from 1921 to 1929. Up to 1928 the movements resembled the broad movements of production, but in 1928-29 they resembled more the movements of financial transactions.

The circular velocity of circulating money fluctuated around 3 from 1909 to 1930. "The very stability of circular velocity from 1909 to 1930 suggests that the tremendous increase in the national income during that period must have been associated chiefly with the increase in the money stock, not with any persistent increase in circular velocity itself."

This brief summary of some of Professor Angell's findings may serve to indicate the general nature of the work but they fail to indicate the large number of topics upon which he touches and the range of his observations. The value of exploratory studies of this nature in accumulating additional facts and in suggesting fruitful lines of research cannot be overstressed.

The most serious limitation upon Professor Angell's work, and indeed upon the work of any student in this field, is to be found in the unsatisfactory character of the basic data. This applies particularly to his most basic series, that of circulating deposits. Prior to 1928 a large and varying proportion of non-member bank deposits was unclassified. In constructing a money series Professor Angell and the present reviewer used entirely different methods in distributing these unclassified deposits between demand and time deposits. The results obtained differ widely, as is shown in the accom-

panying table.[1] The differences are particularly pronounced in 1922, 1926 and 1927.

YEAR TO YEAR PERCENTAGE CHANGES IN ESTIMATED ADJUSTED DEMAND DEPOSITS (CIRCULATING DEPOSITS) 1921–29, JUNE 30 DATA

Year	Angell	Currie	Year	Angell	Currie
1922	4.5	1.0	1926	1.3	3.9
1923	4.9	4.3	1927	13.2	3.4
1924	4.9	3.4	1928	2.2	1.9
1925	9.8	7.9	1929	0.2	0.3
Annual average 1921–29				3.9	3.2

It is questionable whether Professor Angell would have adopted his method, which follows that of Leong, if he had inspected the results it gives for the movements of time and demand deposits of non-member commercial banks. The following table shows the annual percentage change in time and demand deposits of these banks, obtained by subtracting circulating deposits in member banks and in savings banks[2] from Angell's total circulating deposits, and by subtracting time deposits in member banks and in savings banks from his total time deposits.

YEAR TO YEAR PERCENTAGE CHANGES IN ESTIMATED CIRCULATING AND TIME DEPOSITS IN NON-MEMBER COMMERCIAL BANKS, 1921–29, JUNE 30 DATA

Year	Circulating deposits	Time deposits	Year	Circulating deposits	Time deposits
1922	−28.2	10.9	1926	−10.5	13.9
1923	4.8	10.1	1927	53.8	−17.7
1924	20.2	1.2	1928	5.1	2.8
1925	10.3	1.4	1929	−5.1	−1.8
Annual average 1921–29				5.6	1.0

The erratic movements of Professor Angell's series and particularly the uncharacteristic movements of time deposits raise serious doubts in the reviewer's mind as to the validity of the method of estimating followed. In any case, as Professor Angell himself points out, "the data now available cannot be made to carry a heavy weight of detailed argument" (p. 57). One cannot, therefore, feel as much confidence as one could wish in his conclusions based both on his annual and his monthly interpolated circulating deposits series.

[1] My series revised to exclude demand certificates of deposit.

[2] Unclassified deposits in savings banks distributed in accordance with Angell's method.

In criticizing the proposal of the federal reserve committee to base reserve requirements in part on bank debits, Professor Angell also criticizes Hayek's "not wholly dissimilar proposal for stabilizing the product term, money times exchange velocity." This is hardly being fair to Hayek's position. Although his words can be interpreted as meaning this, the whole tenor of Hayek's argument, in the present reviewer's opinion, entails the stabilization of per capita money incomes to secure "neutral money," which is the viewpoint Professor Angell himself espouses. Whether this could be accomplished by stabilizing the volume of money, as Professor Angell implies, is a highly debatable question that cannot be discussed here.

LAUCHLIN CURRIE

Washington, D.C.

The Theory and Practice of Central Banking, with Special Reference to American Experience. By HENRY PARKER WILLIS. (New York: Harper. 1936. Pp. viii, 480. $5.00.)

At no time have more diverse powers been attributed to central banks in political discussion than is the case today, so that any study dealing with the theory and practice of central banking should arouse wide interest. Such a study from Professor Willis—written as a sequel to his *Federal Reserve System* and *Federal Reserve Banking Practice*—is therefore particularly welcome, since few (if any) men are in a better position to appraise central banking experience in the United States.

Any good book on this subject inevitably invites comparison with Bagehot's monumental *Lombard Street,* but the comparison would be unfair in this case. The simplicity and clarity of Bagehot's writing arise in no small measure from the fact that he was describing practices that were already crystallized and widely admitted, whereas Professor Willis has a much more difficult task in view of the fact that there is today no unanimity of opinion regarding either the aims or the powers of central banking institutions. To meet this difficulty, the present author has accepted as his criterion the restatement of traditional central banking principles (on the assumption that much of what has happened in the last twenty years is abnormal and transitory), and it is on this basis that the discussion is conducted.

By such a standard the experience of the federal reserve system (which is admirably portrayed) is depressing. Failure to use discount-rate policy appropriately, misuse of open-market powers, vitiation of acceptance principles, absence of any gold policy—these are but a few of the indictments that are supported by a considerable body of evidence, and in every case there is apparent in reserve policy an underlying tendency to depend on the security market to an unwise degree.

But, even though most students will agree with the author's final judgment regarding the policies of the federal reserve system, there will proba-

bly be considerable controversy regarding his definition of central banking principles. To be sure, there is evidence enough to show that the aims of the leading apostles of monetary management are impracticable, and few students will disagree with Professor Willis's conclusions regarding international coöperation of central banks. The point of controversy is undoubtedly the liquidity theory. When Tooke crystallized that theory, banking was not a monetary institution but a mechanism for economizing working capital, and much of the validity of the doctrines of the Banking School hinges upon that point. Since that time, however, checks have replaced notes in the income balances of the community (particularly in England and the United States) and that fact alone, on Tooke's own premises, necessitates a more careful reëxamination of the liquidity theory than it has yet received.

Despite theoretical controversy, it is pleasant in a world of many arguments, based oftentimes on few facts and much humanitarian imagination, to come across a book like this, which builds upon a factual foundation of history and personal experience. Both the proponents and the opponents of modern "monetary management" will need to study this volume carefully —and much can be gained from controversial effort to solve some of the problems that the author raises.

F. Cyril James

University of Pennsylvania

NEW BOOKS

Adarkar, B. P. *The theory of monetary policy, with special reference to the relation between interest rates and prices.* (London: P. S. King. 1935. Pp. xi, 125. 7s. 6d.)

Baños, O. F. *Función de la banca en un complejo económico integral.* (Madrid: Marsiega. 1936. Pp. 112.)

Baudin, L. *La monnaie et la formation des prix.* Part I. *Les éléments.* (Paris: Recueil Sirey. 1936. Pp. xi, 621.)

Burgess, W. R. *The reserve banks and the money market.* Rev. ed. (New York: Harper. 1936. Pp. xxv, 342. $3.)

Cassel, G. *The downfall of the gold standard.* (New York: Oxford Univ. Press. 1936. Pp. viii, 262. $2.25.)

This brief survey is a combination of narrative, exposition and argumentation, equally but somewhat indiscriminately mixed. It retells the story of the departure of England from the gold standard, to be followed by other members of the present sterling bloc. It expounds for a popular audience the shortcomings of the old gold standard which made inevitable this step, and the contrasting virtues of a managed monetary system. Emphatically the author argues that any return to the old gold standard, or anything much like it, would be unwise and dangerous. He aims at the numerically small group which regards such a return as inevitably necessary as well as the group represented by Einzig which foresees a gold standard of greatly modified character.

Fifty years from now a bibliography of controversial books and pamphlets growing out of the 1931-34 monetary troubles will politely list this book as

a work by the noted authority Cassel attacking the gold standard and defending the inter-country management of currencies carried on by the sterling bloc after 1931. It will be recommended to students only when read simultaneously with similar popular discussions expressing opposed points of view.

Shaw Livermore

Coughlin, C. E. *Money! Questions and answers.* (Royal Oak, Mich.: Nat. Union for Social Justice. 1936. Pp. 188.)

Crawford, H. P. *The uniform check law of France.* Gen. legal bull. (Washington: Supt. Docs. 1936. Pp. 21.)

Das, N. *Banking and industrial finance in India.* (Calcutta: Modern Pub. Syndicate. 1936. Pp. 257. 7s. 6d.)

Despaux, A. *Les dévaluations monétaires dans l'histoire.* (Paris: Rivière. 1936. Pp. 463. 40 fr.)

Dobb, M. *Social credit discredited.* (London: Martin Lawrence. 1936. Pp. 30. 3d.)

Ferguson, D. G. and Lester, A. H. *Inflation's timing and warning symptoms of its explosive stage.* (Cambridge: Am. Inst. for Econ. Res. 1936. Pp. 63. $1.)

Foster, B. and Patterson, E. L. S. *Banking.* (New York: Alexander Hamilton Inst. 1935. Pp. xx, 358.)

Griffin, B. W. and Greene, H. C. *Installment credits and collections and the installment market.* (New York: Prentice-Hall. 1936. Pp. xii, 326.)

Harris, A. L. *The negro as capitalist: a study of banking and business among American negroes.* (Philadelphia: Am. Acad. of Pol. and Soc. Sci. 1936. Pp. xii, 205.)

Hetzel, F. W. *Analyzing checking accounts scientifically.* (Boston: Bankers Pub. Co. 1936. Pp. 118. $3.50.)

Holgate, H. C. F. *Foreign exchange.* (London: Pitman. 1936. Pp. 98. 2s.)

Houston, H. *The fundamentals of money.* (London: P. S. King. 1935. Pp. ix, 221. 10s.)

This book falls in the region between the popular treatment of the subject and the specialized and technical monograph. It is singularly free from "cause pleading" and the fallacies of the popular books, but has little to offer the specialist in monetary theory. It presents in a sound and well informed way the facts about money, credit, credit control, banking, foreign exchanges, and monetary policy, accompanied throughout by well chosen examples. Many of these examples are taken from American experience and should be of especial interest to the American reader.

The last two chapters of the book deal with "Problems of equilibrium" and "Essentials of stability." In these two chapters (24 pages) the author has attempted to crowd an analysis of monetary theory and policy as they relate to the trade cycle.

In discussing the causes of the depression which commenced in 1929, Mr. Houston states, "The writer's own opinion is that the monetary policy of that country (United States) is the fundamental cause of the depression, and that the main error lay definitely in an expansion of credit which, whether by accident or design, almost exactly counterbalanced the fall in wholesale prices which would otherwise have taken place. Thus arose a position of false alignment which was serious in the extreme" (p. 201). And about the *correct* monetary policy he says, "The ideal monetary policy should be the preservation

of stable economic relationships. Prices are swayed one way or another by the power of four contending forces. [The forces which Mr. Houston has in mind are demand and supply of goods, and the demand and supply of money.] Some of these price movements are desirable and others are not. The country of the future, which will make the greatest use of its resources and progress most peacefully towards the ideal of a more abundant life for its citizens, will be that in which the only price movements that occur are those which help to preserve for the factors of production the most economic distribution of revenue" (p. 211). And, "To insure that economic relationships are thus properly preserved it is believed that the best practical policy is to aim at stability of profit margins" (p. 213).

WALTER F. CROWDER

HUBBARD, L. E. *Soviet money and finance.* (New York: Macmillan. 1936. Pp. xix, 339. $4.50.)

JEANNENEY, J-M. *Essai sur les mouvements des prix en France depuis la stabilisation monétaire (1927-1935).* Etudes écon., tome i. (Paris: Recueil Sirey. 1936. Pp. xv, 257.)

MCLANE, C. J., compiler. *Credit union bibliography.* (Washington: Riverford Pub. Co. 1936. Pp. 48. $1.)

MILHAUD, E. *Le cheque-compensation international devant l'opinion.* (Paris: Recueil Sirey. 1936. Pp. 302. 20 fr.)

MULES, W. R. and LAWS, O. *Mathematical principles of installment financing.* (Baltimore: Reese Press. 1936. Pp. 300. $5.)

ORCHARD, C. R. *Credit unions for government employees.* Pamph. no. 1. (Chicago: Civil Service Assembly of U.S. and Canada. 1936. Pp. 13. 40c.)

PETERSON, J. *Sixty-five years of progress and a record of New York city banks.* (New York: Continental Bank and Trust Co. of N.Y. 1935. Pp. 135.)

PLESCH, A. *The gold clause: a collection of international cases and opinions.* Vol. II. *New decisions of various supreme courts.* (London: Stevens. 1936. Pp. vii, 44.)

In this pamphlet Dr. Plesch has carried his useful summary of gold clause decisions through the first part of 1936. The author finds that, since his first volume was published, international law concerned with the gold clause has developed the following new features: the gold clause may at the same time be a coin clause by its explicit terms and a value clause by implication; the multiple currency clause does not give an option on the substance of a debt; and the public policy of other countries is a bar to the extraterritorial effect of the Joint Resolution of the American Congress of June 5, 1933.

ALZADA COMSTOCK

PLESCH, A. and DOMKE, M. *Die Osterreichische Völkerbundanleihe: ein internationalrechtlicher Beitrag zur Frage der Goldklausel, der Wirkung von Staatsgarantien und zur Stellung von Trustees im Anleiherecht.* (Zürich: Polygraphischer Verlag. 1936. Pp. 143. 3.50 fr.)

Dr. Plesch, who has also recently published two short volumes summarizing international cases and opinions concerning the gold clause, here presents, in collaboration with Dr. Domke, a review of decisions and opinions on international questions arising out of the financial reconstruction of Austria under

the aegis of the League of Nations. Again his central point of interest is the gold clause.

The backbone of the League of Nations' aid to Austria was an international loan to that country, the loan of 1923-1943. The issue was guaranteed by a group of the chief financial powers and participated in by a number of countries, with the United States taking the second-largest share. The American issue was the only one to contain the gold clause. The Council of the League appointed three trustees for the loan.

Many puzzling and somewhat new questions have arisen in connection with the terms and arrangements of this loan. The authors take up decisions and opinions on three subjects: the gold clause, especially as affected by the Joint Resolution of June 5, 1933 and the Supreme Court decision of February 18, 1935; the operation of the guarantees by the powers, and the legal position of the trustees. The authors amass weighty arguments to dispose of the necessity for gold payments and establish the fact that in any case the gold dollar clause in the American issue was a gold *value* clause. The treatment brings out the transitional character of international law with respect to loans of this type.

ALZADA COMSTOCK

RAWIE, H. *Money velocity.* (Montclair, N.J.: Author, 171 Montclair Ave. 1936. Pp. 32. 25c.)

SCANLAN, F. J. *Money matters.* (London: P. S. King. 1936. Pp. vii, 156. 6s.)

This book is a reply (1) to those foreign critics, chiefly French and Americans, who have accused Great Britain of deliberately blocking "stabilization" proceedings in order to further her own selfish gain in international trade through a depreciated currency, and (2) to those home critics, chiefly socialists, who have charged that the present monetary and banking system does not maximize production and consumption, and who propose as a remedy the nationalization of all banks.

In respect to the former charge, Mr. Scanlan points out that Great Britain's monetary policy has been dominated not by external considerations, but rather by political and economic conditions at home. Statistical evidence is presented which shows that Great Britain has gained very little through international trade over the past five years, and that this gain has been confined almost entirely to sterling areas. The fact that Great Britain was adversely affected by the financial disturbances on the Continent in 1931, at which time she was on the gold standard, combined with the fact that she has experienced pronounced internal recovery since leaving the gold standard, has rendered, in Mr. Scanlan's opinion, any "stabilization" agreement politically and economically inexpedient. He does not regard "stabilization" as being permanently impossible, however, especially among ". . . countries having approximately the same standards of living, such as France, America, and Great Britain, . . ." (p. 143) but this can be accomplished only when political and economic conditions within the countries are favorable.

As a reply to the second charge, Mr. Scanlan endeavors to show that banks in general, and the Bank of England in particular, have performed their legitimate functions in an efficient manner during the recent depression. In his opinion the Bank of England as now organized can serve the government with as much loyalty and with greater speed than it could as a state controlled institution.

F. J. ELLERMAN

STRACHEY, J. *Social credit: an economic analysis.* (London: Gollancz, jointly with Workers' Bookshop. 1936. Pp. 24. 3s.)

TRUPTIL, R. J. *British banks and the London money market.* (London: Cape. 1936. Pp. 350. 10s. 6d.)

WHITE, H. E. *Wholesale prices at Cincinnati and New York.* Cornell Univ. Agric. Exp. Station memoir 182. (Ithaca: Cornell Univ. 1935. Pp. 42.)

WILLIS, H. P. *The theory and practice of central banking, with special reference to American experience, 1913-1935.* (New York: Harper. 1936. Pp. 488. $5.)

Banco Central de la Republica Argentina: annual report, first financial period, May 31 to December 31, 1935. (Buenos Aires: Banco Central de la Republica Argentina. 1936. Pp. 63.)

Banking act of 1935. (New York: Am. Inst. of Banking. 1935. Pp. 60.)

Cost of living in the United States, 1914-1936. Stud. no. 228. (New York: Nat. Ind. Conf. Board. 1936. Pp. ix, 99. $2.50.)

Michie on banks and banking. 1936 supplement for volumes 1-9. (Charlottesville, Va.: Michie Co. 1936.)

Money and banking, 1935-36. Vol. I. *Monetary review.* Vol. II. *Commercial banks.* (Geneva: League of Nations. New York: World Peace Found. 1936. Pp. 59; 213. 65c.; $1.85.)

Present day banking: public relations, earnings, management. (New York: Banking, Jour. of Am. Bankers' Assoc. 1936. Pp. 527. $3.50.)

Proceedings of the first annual Pacific Northwest Conference on Banking, sponsored by the School of Business Administration of the State College of Washington and held on State College Campus, April 9-11, 1936. (Pullman: State Coll. of Washington. 1936. Pp. 109.)

Contains papers on "The federal reserve system and the Banking act of 1935," by M. S. Szymczak; "Economic aspects of recent banking legislation," by O. K. Burrell; "World currency instability," by H. H. Preston; "Potentialities for domestic inflation," by Blair Stewart; "Interest rates and their trend," by R. H. Farmer; "The outlook for interest earnings," by A. L. Mills, Jr.; "Canadian banking," by M. D. Hamilton; "Bank investment policy and its application," by W. F. Gabriel.

Prospects for inflation: a conference held at the University of Minnesota. Day and hour ser. no. 13. (Minneapolis: Univ. of Minnesota Press. 1936. Pp. 32. 25c.)

Savings plans and credit unions in industry. Stud. no. 225. (New York: Nat. Ind. Conf. Board. 1936. Pp. ix, 72.)

Year book of the trust division of the American Bankers Association, 1934-35: containing the proceedings of the sixteenth mid-winter trust conference, New York, February 12-14, 1934; twelfth Pacific Coast and Rocky Mountain states trust conference, San Francisco, California, November 8-9, 1934; annual meeting, trust division, Chicago, Illinois, October 23, 1935. (New York: Eilert Printing Co. 1935. Pp. 242.)

Public Finance, Taxation, and Tariff

United Kingdom: Report of the Income Tax Codification Committee. Vol. I. *Report and Appendices.* Vol. II. *Draft of an Income Tax Bill.* (London: H. M. Stationery Office. 1936. Pp. 541; xxii, 285. 8s.; 4s. 6d.)

After eight and one-half years of work the British Income Tax Codi-

fication Committee, appointed in 1927 by Mr. Churchill, then Chancellor of the Exchequer, has presented a report in two volumes; the first contains the report proper and the second the Committee's draft of a new income tax bill. Until 1932 the Committee was under the chairmanship of Sir Frederick Liddell. Since that time Lord Macmillan—who was responsible for the significant *Macmillan Report on Finance and Industry, 1931*—has been its chairman.

The Committee's terms of reference included instructions to try to make the law "intelligible to the taxpayer" and to suggest changes which would "promote uniformity and simplicity." The Committee has accordingly dealt with the form rather than the substance of the law; but even within the limitations imposed it has had a task of extraordinary complexity. "Codification of our income-tax law is a task that might have appalled a Theodosius or a Justinian," the *Economist* remarks in a brief review (April 11, 1936, p. 73). Since the British income tax was introduced in 1799, the legislation has come to consist of nearly 800 distinct provisions, embodied in 19 different acts of Parliament. The consolidating act of 1918 (Income Tax act, 1918) is the principal income tax act now in force; but that Act, the Committee observes, is "mainly a reproduction of a body of law enacted more than a century and a quarter ago and adapted to the economic, social and commercial conditions of that time."

The condition in which the Committee found the law is described as "chaotic." Under the caption "Antiquated and anomalous provisions" examples are given of the old-fashioned outlook of the Acts. For example, Schedule B, the "farmer's income tax" on the occupation of lands, was devised when the agricultural use of land was predominant and was so devised that ordinary dwelling houses and business premises, now so important, were only excepted as a kind of afterthought. Railways, first mentioned in 1842, come after fishing and market rights in the list of concerns having profits from land in Schedule A. The legal complexities which have developed are discussed, but with some allowance for "the intractable ambiguities of our language and our syntax."

The Committee presents no formal list of recommendations but states that its suggestions are contained in the bill which it offers. It is proposed that "the whole untidy apparatus of schedules and rules should be swept away" —pity the poor *Punch* cartoonist who can no longer make sport of Schedule D—and that income should be classified under 15 heads with separate rules and provisions. Much-abused terms are defined by the Committee, which observes that the word "assessment," for example, is now used in eight different senses. The method of computing trading profit is defined, and the Committee, slightly departing from its terms of reference, suggests that wear and tear on machinery and plant should be treated as an allowable deduction.

The proposed bill itself, composed of 14 parts, fills the 285 pages of the

second volume. It appears to be a superlatively able piece of work. The Committee's aim of gathering together from their present scattered sources all of the provisions on each topic and embodying them in articulate clauses in the bill has been as nearly accomplished as is humanly possible. But taxpayers the world over are a sorry lot. Even in tax-proud and tax-conscious Britain, they are busying themselves with writing violent letters to the newspapers chiefly on the subject of an incidental proposal of the Committee to remove income tax notices from church doors!

ALZADA COMSTOCK

Mount Holyoke College

NEW BOOKS

ALLEN, H. K. *Costs and services of local government in selected Illinois counties.* Bull. no. 52. (Urbana: Univ. of Illinois Bur. of Bus. Res. 1936. Pp. 53.)

AMES, K. L., JR. *The A-B-C of Illinois state finance.* (Springfield: State House. 1936. Pp. 160. Gratis.)

BAAR, A. R. and MORRIS, G. M. *Hidden taxes in corporate reorganizations.* (Chicago: Foundation Press. 1935. Pp. xv, 547. $10.)

This volume covers all federal Revenue acts from 1918 to 1934, together with court decisions, Treasury decisions, rulings of the Bureau of Internal Revenue, and the Board of Tax Appeals. Within the narrowly limited field the minutiae of case interpretation are scarcely inviting to the student of economics. Yet, if he will faithfully wallow through parenthetical clauses, adjusted bases, property bases, gain and loss bases, controlled corporation reorganizations, etc., for half a thousand pages, some benefits will be forthcoming. For one thing, the intricacies of fiscal administration will become painfully real; in another direction he will be, or ought to be, impressed with much of the lack of correspondence between business income and profits. At least one question will confound him: Why such terrific complication in an attempt to tax income? Especially this little share of it? The answers may be discovered, so the present writer thinks, in: (1) the traditional American legal apothegm that all things are legal which have not been specifically denied; and (2) the fact that taxation has risen to the level where there is conscious evasion of the burden. The volume is for the expert in tax accounting and in tax law rather than for the everyday business manager or the economist. Unfortunately, reorganizations under Section 77-B of the Bankruptcy act are all but omitted.

F. F. BURTCHETT

BUEHLER, A. G. *Public finance.* (New York: McGraw-Hill. 1936. Pp. xix, 632. $4.)

CHISM, L. L. *The economic ability of the states to finance public schools.* Contribs. to educ. no. 669. (New York: Teachers Coll., Columbia Univ. 1936. Pp. 175. $1.85.)

CLARK, K. R. *Inheritance and estate taxes on life insurance.* (Chicago: Callaghan. 1935. Pp. xi, 251.)

Whether approached from the standpoint of public revenues, fiscal administration, personal interest, academic abstraction, or social justice, no student can peruse this volume without reaching the conviction that the existing tax

system is fearfully complicated. "What is the law?" seems no longer to be a question for direct answer through general principles. Rather, it has become a problem in probate gymnastics under the legal machinery of the federal government, the forty-eight states, and the local units of government possessed of permanent or temporary taxing powers.

Nominally the volume deals with the taxation of life insurance. But the inclusion of annuities and insurance trusts extends the discussion considerably beyond the confines of the shortened title. The author recognizes that social redistribution of wealth by progressive death taxes is an accepted principle in national economic policy and that in a dynamic society the tax system is in a state of flux. Although he makes no attack upon the system of precedent by which each new variation is tied to previous statutory wordings, his critical suggestions for redrafting the tax laws on property values involving life contingency contracts are meritorious, whether judged by the exigencies of administration or tested by the principles of social justice. The inane technicalities which have grown up around the legal incidents of ownership receive pointed attention at more than one place. The author is to be congratulated upon writing a law book which an economist can understand.

F. F. Burtchett

Dalton, H. *Principles of public finance.* 9th ed., rev. (London: Routledge. 1936. Pp. 323. 5s.)

Hazelett, C. W. *Incentive taxation: a key to security.* (New York: Dutton. 1936. Pp. xv, 195. $1.)

Irwin, L. A. *Taxes: borough, school, township, county and municipal.* (Harrisburg, Pa.: Louis A. Irwin, Inc. 1935. Pp. 130.)

Jorgensen, E. O. *Did Henry George confuse the single tax?* (Elkhart, Ind.: James A. Bell Co. 1936. Pp. 98. $1.)

KixMiller, W. *Foundation guide for payroll taxes: Social Security act, state laws.* (Chicago: Foundation Press. 1936. Pp. vii, 264.)

Larkin, J. D. *The President's control of the tariff.* (Cambridge: Harvard Univ. Press. 1936. Pp. xii, 207.)

This is primarily a study in government. The author is concerned chiefly with one phase of the growth of executive power. After reviewing the history of the delegation of tariff powers to the President, the author concludes (p. 185), "In short, there is little which Congress might wish to do with the tariff which cannot be done by the President." The statement is somewhat misleading. Nominally it is true, but actually a wholesale revision of tariff rates, either upward by the use of the semi-defunct flexible provisions, or downward by trade agreements, is impossible. The time-consuming character of both the bargaining and the cost-equalizing processes, and the expensiveness of the latter, and the opposition of the business community to tariff tinkering, effectively limit the President's rate-changing activities within rather narrow bounds. But Dr. Larkin is right that in the important field of tariff administration the executive can and does exercise considerable discretion.

A substantial part of the book is devoted to the work of the Tariff Commission, particularly in its attempts to work the unworkable formula of cost equalization. Here, as elsewhere the author makes extensive and careful use of source materials. He appears to be unfamiliar, however, with two excellent monographs covering much of the same ground, Bernhardt's *The Tariff Commission* (1922) and Baron Snoy's *La Commission des Douanes et la Politique*

Commerciale des Etats Unis (Brussels, 1932). It is unfortunate that the manuscript should have been completed before time was available to evaluate the use made of tariff bargaining powers under the Trade Agreements act of 1934. Although dealing often with highly technical matters, the author presents his material skillfully and readably.

PERCY W. BIDWELL

LUTZ, H. L. *Public finance.* 3rd ed. (New York: Appleton-Century. 1936. Pp. 961. $4.)

SCHILLER, K. *Arbeitsbeschaffung und Finanzordnung in Deutschland.* Zum wirtschaftlichen Schicksal Europas, II. Teil, 4. Heft. (Berlin: Junker und Dünnhaupt. 1936. Pp. x, 177.)

Those interested in German finance under the national-socialist administration will welcome this account of the financing of work relief in Germany. By way of introduction the author analyzes, briefly and clearly, various theories of the relation of public works to the business cycle. But the main part of the book is devoted to a review of the development of work relief in post-war Germany, and especially to the amount of public expenditures for the different programs, and the manner in which each has been financed. Not all will agree, probably, with the author's defense of the large debts created for the various work relief programs (see, *e.g.*, pages 122 *ff.*); but all who have been troubled by the incompleteness of the published records of national finances for the period of the present administration will be grateful for some 30 pages of financial data at the end of the volume. These have been gleaned from many sources, and occasionally it has been necessary to leave gaps or to resort to estimates. But the principal facts are there; and the author's discussion of them in the main body of the book leaves the reader with a clear picture of this important phase of German financing.

MABEL NEWCOMER

SILVERHERZ, J. D. *The assessment of real property in the United States.* Spec. rep. of N.Y. State Commission no. 10. (Albany: State House. 1936. Pp. xxiii, 396.)

The author of this monograph presents a well organized, state-by-state account of assessment procedure which will be found extremely useful for reference purposes. Nor is its value limited to reference purposes. The reader who is interested to go through it systematically should be deeply impressed by this cumulative record of failure, however well acquainted he may be with the shortcomings of prevailing assessment practices. And he will find something on the constructive side. For what we have learned by experience is there. The author very wisely sticks closely to his facts and disposes of more than one widely accepted belief, such as the superiority of the county to the smaller district as an assessment unit, by simple reference to actual experience. In this particular instance, however, he himself admits that experience may not be a safe guide, although in the end he recommends a special administrative area in preference to the county for assessment purposes. Whether this would prove more successful than the county, or would merely add another cross-cutting layer of government to increase local administrative confusion, cannot be determined by subjecting it to the factual test that the author applies elsewhere with such success. He is on safer ground, with Wisconsin's experience to

back him, in recommending more thoroughgoing state supervision than now prevails.

MABEL NEWCOMER

SMITH, B. R. *The ability of Kentucky to finance public education.* (Nashville, Tenn.: George Peabody Coll. for Teachers. 1935.)

SMITH, F. F. *War finance and its consequences.* (London: Faber and Faber. 1936. Pp. 320. 10s. 6d.)

STUDENSKI, P., editor. *Taxation and public policy: a discussion of the current problems of American and European public finance.* (New York: Richard R. Smith. 1936. Pp. 267. $3.)

Alcoholic beverage tax law and departmental regulations. Article 18 of the tax law, originally enacted in 1933 and subsequently amended. (Albany: State House. 1936. Pp. 31.)

American federal tax reports: a convenient collection of unabridged court decisions from every American court—state and federal—that has had before it problems arising under the federal tax laws. Vol. 15. (New York: Prentice-Hall. 1936. Pp. v, 1491.)

Changes in import duties since the passage of the Tariff act of 1930. U. S. Tariff Comm., misc. ser. 2nd ed. (Washington: Supt. Docs. 1936. Pp. 44. 10c.)

The cost of municipal government in Massachusetts: twenty-ninth annual report on the statistics of municipal finances for city and town fiscal years ending between November 30, 1934, and December 31, 1934. Pub. doc. no. 79. (Boston: State House. 1936. Pp. xxvii, 297.)

Debt taxation and inflation: proceedings of conference held under auspices of alumni and faculty, Wharton School of Finance and Commerce. (Philadelphia: Univ. of Pennsylvania, Wharton Inst. Committee. 1936. Pp. 109. $1.)

United States master tax guide, 1936: based on the Revenue act of 1934, as amended in 1935, and the regulations, rulings, and decisions under present and prior laws, to 1936. (Chicago: Commerce Clearing House. 1936. Pp. 235. $1.)

Population and Migration

NEW BOOKS

ALLEN, J. S. *The negro question in the United States.* (New York: International Pubs. 1936. Pp. 224. $2.)

Underlying both southern agriculture as a whole and the American race problem as a whole is the plantation system. The system survives because the "bourgeois-democratic revolution of 1861-65" ended in a compromise—still substantially intact—and because the foundations of the system have been made progressively more secure as its control has passed to purely financial interests. (In aiding the latter process, as well as in other respects, the New Deal has strengthened the *status quo.*) The special significance of the system as a social force arises from its semi-feudalistic relationships, of which share-cropping proper is the clearest though not the sole representative.

This is Mr. Allen's general thesis, and he develops it in an informed and intelligent fashion. His analysis should make a strong appeal to serious students who do not share his revolutionary aims. But his program is another matter. For it is based upon the familiar and discredited communist doctrine that the solution of the American race problem lies in self-determination for an "oppressed nation," although the doctrine appears in somewhat emasculated

form. Thus, Mr. Allen looks to the formation of a Black Republic in the Black Belt (a continuous crescent-shaped territory running from Maryland to Texas in which whites are actually in the minority, forming in 1930 only 49.7 per cent of the population!). The idea involves neither economic separatism nor racial domination (except as it reflects the racial composition of the population). The distinguishing feature of the region is that here the "historically necessary" task of completing the bourgeois-democratic revolution, through the expropriation of the large landholders, shall be performed by the (predominantly colored) peasantry aided by an aroused industrial proletariat. In brief, Mr. Allen incorporates into his general program of socialist revolution a separate problem of "national development." But his own discussion of the problem, as found in the first portion of the book, furnishes convincing evidence that there simply is no "oppressed nation" in any important sense of that term; that in any case the process of "national development" which he envisages could occur, if at all, only under conditions which would render it inconsequential; and that, viewed purely from the standpoint of his own revolutionary objectives, his program represents an amazing attempt to hew to the "party line."

EDWARD E. LEWIS

CARR-SAUNDERS, A. M. *World population: past growth and present trends.* (New York: Oxford Univ. Press. 1936. Pp. xv, 336. $4.50.)

DAVIE, M. R. *World immigration, with special reference to the United States.* (New York: Macmillan. 1936. Pp. 598. $5; textbook ed., $3.75.)

GOODRICH, C., and others. *Migration and economic opportunity.* Report of the Study of Population Redistribution. (Philadelphia: Univ. of Pennsylvania Press. 1936. Pp. xvii, 763. $5.)

KUCZYNSKI, R. R. *Population movements.* (New York: Oxford Univ. Press. 1936. Pp. 121. $1.75.)

In the present work Dr. Kuczynski, one of the world's leading demographers, presents in three short but compact and adequately annotated chapters a critical appraisal of the vital statistical materials available in various parts of the world, a sketch of the peopling of America, a historical account of changes in mortality, fertility, and net reproduction in various parts of the world during the past century, and a summary picture of the present-day demographic status of Europe, North America, and Australia. A valuable appendix on the distribution of races in Africa, America, and Oceania is included.

The author does not believe that the populations in a number of countries can maintain themselves unless there is an increase in the "desire to raise children." Further reduction in mortality can accomplish little. Nor, in general, can an increase in the frequency of marriage or a reduction in the age at which marriage is contracted appreciably augment natality. He attributes the decline in fertility to the increased practice of birth control, observing that public opinion at present is unfavorable to population growth whereas it was favorable prior to the World War. He has little faith in the efficacy of the pro-populationist measures of countries such as Germany to elevate fertility. Although the author does not take a specific position on the desirability of limiting the size of the population in given countries, he does state that the diminution in natality will increase unemployment and that emigration cannot solve or reduce the unemployment problem in countries such as England.

J. J. SPENGLER

Morgan, D. C. *The foreign born in the United States.* (New York: Am. Committee for Protection of Foreign Born. 1936. Pp. 82. 10c.)

Schrieke, B. J. O. *Alien Americans: a study of race relations.* (New York: Viking. 1936. Pp. xi, 208.)

A study made for the Julius Rosenwald fund.

Social Problems and Reforms

The State and the Standard of Living. By Gertrude Williams. (London: P. S. King. 1936. Pp. v, 354. 12s.6d.)

Mrs. Williams here gives us a fresh account and interpretation of what, taken collectively, might once have been called the British "New Deal"; and the perusal of her book bears out the recent statement of a prominent Englishman that most of the "startling innovations" brought about by the Roosevelt administration are really "old stuff" to Britons. Not only has Great Britain had the essentials of old-age pensions, health insurance, the minimum wage, and unemployment insurance for a quarter of a century or more, but there have been many other features in her experience running parallel to our own. For example, the effort under Joseph Chamberlain's work relief plan in 1886 and again under the Act of 1905 to establish lower wages for this kind of work than in private employment met with the same protest and the same failure as ours under the W.P.A. The distinction between relief work and a public works program was clearly recognized in the Minority Report of the Royal Commission on the Poor Laws in 1909; and the difficulties of maintaining discipline and efficiency in such made-work were the same as we have had. But Great Britain has never really tried a public works program on a large scale. In presenting the first Trade Boards act in 1909 Winston Churchill, who has perhaps been somewhat erratic but never exactly a radical, stated that the purpose of the bill was to "foster organization and to use these organizations as instruments to determine minimum standards below which the wages paid ought not to be allowed to fall." Some might find in this friendly attitude toward collective bargaining through *bona fide* labor unions a precedent for our own Section 7a in the National Recovery act and its successor, the Wagner Industrial Relations act.

The author is obviously more interested in the formation and growth of British opinion with respect to social legislation (specifically that affecting the money incomes of the beneficiaries) than in the details of acts or their administration. Much of the ground covered has already been made familiar by British books on factory legislation and by our own late crop of books on social insurance. But history needs frequently to be repeated lest, as already implied, we lose our perspective and make the same mistakes all over again, or, what is worse, reject what are actually well-tried reforms. Then, too, there are always later developments, such as the separation of unemploy-

ment assistance from unemployment insurance in the Act of 1934, that are significant and which show what gaps in the protective armor have been revealed by experience. The survey which we have before us adequately portrays the piecemeal character of British legislation: that it has usually been passed in response to a popular demand awakened by some particular tragic circumstance or event, an exhibition of sweat-shop conditions like that in London in 1906, or studies of poverty such as those of Charles Booth, B. S. Rowntree, and the Royal Commission of 1909. The doctrines of *laissez faire* and of deterrence or the strengthening of individual and family responsibility, never fully carried out in practice by many of the Poor Law Guardians, have slowly given way to a belief that where children are involved and where unemployment can no longer be considered temporary but has become chronic there is a vicious circle and that the community as a whole—in many cases, the nation as a whole—must supplement the efforts of the individual and of the family. Action in customary British style has been tardy enough but, even so, has run considerably ahead of theory or principle. Much credit is given to the rising political power of labor and to that "generous enthusiasm for a better world" which came after the war. And the mother country, like a true modern parent, has not been above learning from her overseas dominions. The resulting structure may represent several architectural styles and periods and may incorporate some inconsistencies but is evidently much better than the old building.

Little can be said in criticism of Mrs. Williams' work. Although distinctly sympathetic with the newer viewpoint, she quite rightly stops short of advocating the granting of an absolute right to maintenance during unemployment for an unlimited time, on the ground that this would still further obstruct the mobility between trades and occupations which is already too slow. In the mere matter of book-making it might have been well to break up the rather long chapters with topical divisions in the text just as they occur in the table of contents. An American with some trace of Scotch ancestry may make bold to suggest that, especially where so much is said of the early leadership of Keir Hardie, M. Beer's term "British Socialism" is to be preferred to "English" (p. 33). The author evidently considers the contributory old-age insurance plan of 1925 beyond the scope of her study as she makes very little of it. Yet the trend of pension legislation since the war, largely in the interests of making provision for old age more liberal, has been strongly toward a contributory system.

Warren B. Catlin

Bowdoin College

NEW BOOKS

Aldrich, W. W. *An appraisal of the federal Social Security act.* Address before the Institute of Public Affairs, University of Virginia, July 10, 1936. (New York: Chase Nat. Bank of the City of N.Y. 1936. Pp. 47.)

Baker, H., compiler. *The development of the Social Security act: a selected list of references.* (Princeton: Princeton Univ. Industrial Rel. Section. 1936. Pp. 11.)

Boeck, A. L. *The economic essentials of world peace.* School of research stud. 10. (Los Angeles: Univ. of Southern California Press. 1935. Pp. 45.)

Brackett, J. R. *The transportation problem in American social work, including an account of the origin and development of the transportation agreement.* (New York: Russell Sage Found. 1936. Pp. 38.)

Brainard, D. S. and Zeleny, L. D. *Problems of our times.* Vol. II. *Economic and social planning.* (New York: McGraw-Hill. 1936. Pp. 366. $1.48.)

A high school text.

Bristol, M. C. *Handbook on social case recording.* Soc. serv. monog. no. 36. (Chicago: Univ. of Chicago Press. 1936. Pp. 231. $1.50.)

Cavers, D. F., editor. *The old-age security and the welfare titles of the Social Security act: a symposium.* Law and contemp. prob. vol. iii, no. 2. (Durham: Duke Univ. Law School. 1936. Pp. 162. 75c.)

Clark, G. *The balance sheets of imperialism: facts and figures on colonies.* (New York: Columbia Univ. Press. 1936. Pp. xii, 136. $2.75.)

————. *A place in the sun.* (New York: Macmillan. 1936. Pp. xv, 235. $2.50.)

Both books are analyses of the validity of the main arguments advanced in support of imperialistic policies. The latter work is essentially a popularization of the contents and conclusions of the former and is designed for the lay reader. The former study was made under the auspices of the Carnegie Endowment for International Peace. It includes 19 pages of text and conclusions based upon 73 pages of tables, a summary picture of the political status of colonized territories in 1935, a list of the principal post-1763 treaties relating to colonies, and a short bibliography. The tabular data relate primarily to the post-1880 period. The author has tabulated the past and present status of the territorial holdings of the chief powers, data on various aspects of the external trade of colonies and of leading territory-holding countries, and such data on migration and population as are necessary to determine whether colonies serve to relieve population pressure in the colony-holding countries.

Mr. Clark reaches three main conclusions relative to the post-1880 period: (1) that colonies have not provided important outlets for the "excess" population of the countries controlling them; (2) that the possession of colonies does not give the possessing countries important economic opportunities or trade which would otherwise not have been available; (3) that mere control over colonial sources of raw materials does not contribute significantly to a nation's security in time of war or to its economic advantage in time of peace. The author concludes in general that whereas in 1800-1880 colonies were not an important source of gain or loss to the mother countries, since 1880 colonies on the whole have occasioned more loss than gain to their holders.

Mr. Clark does not believe that present colonies can be made to serve as outlets for "surplus" populations. Nor does he believe that many of the present-day colonies can govern themselves. He suggests that the economic irritants and the consequent emotional irritants to which unilateral control of colonies gives rise could be greatly mitigated if "real equality of economic opportunity for nationals of all countries" were permanently insured. He advocates, therefore, that the colony-holding powers establish such "complete equality" and

give the League of Nations "the right to insist that that policy be maintained." Should the present method of handling most colonial areas not be modified in this manner "much worse lies ahead than has gone before."

J. J. SPENGLER

CLARK, H. F. *An introduction to economic problems for students and teachers.* (New York: Macmillan. 1936. Pp. xv, 271.)

CORDELL, W. H. and CORDELL, K. C., editors. *American points of view: a reader's guide, 1935.* (Garden City, N.Y.: Doubleday, Doran. 1936. Pp. xxiv, 461.)

COYLE, D. C. *Waste: the fight to save America.* (Indianapolis: Bobbs-Merrill. 1936. Pp. 96. 50c.)

CROWTHER, G. *Ways and means: a study of the economic structure of Great Britain today.* (New York: Macmillan. 1936. Pp. 216. $2.10.)

DAVIS, K. *Youth in the depression.* (Chicago: Univ. of Chicago Press. 1935. Pp. 47.)

DREIS, T. A., compiler. *A handbook of social statistics of New Haven, Connecticut.* (New Haven: Yale Univ. Press, for the Inst. of Human Relations. 1936. Pp. xiii, 146. $2.50.)

FAIRCHILD, H. P. *This way out. A publication of the People's League for Economic Security.* (New York: Harper. 1936. Pp. vii, 89. $1.)

FERRAND, L. *Problèmes d'économie politique et sociale: salaires—coöpération—réglementation du travail—maladies sociales—assurances sociales—habitation.* (Paris: Alcan. 1935. Pp. xii, 933. 75 fr.)

M. Ferrand's overlong book can be described neither as a didactic study for laymen nor as an analytical treatise for economists. It is primarily a series of reflections on timely socio-economic problems, based upon the author's discussions with fellow World-War prisoners.

Individuals in our society, as producers and consumers, as laborers and capitalists, enter into various economic and social relations with each other. A number of these significant points of contact, elaborated against the background of present-day French conditions, form the subject matter for the many chapters. The state, the family, wages, working conditions, coöperatives, social insurance, social diseases both of a moral and physical character, demographic problems, urbanism and housing are among the subjects discussed. In each case methods to remove the conflicts, misery, and vices of our society are recommended.

The author is not concerned with any of the underlying causal factors or with many of the more important economic phenomena which are influential determinants in the conditions he deplores. Business cycles, money, credit and banking and the public finances are among the neglected factors. Presumably they are the given elements in our economic organization of society to which we must resign ourselves. Remedies can be sought only for the unnecessary surface disturbances and defects. The French masses, to whom the book is undoubtedly addressed, think otherwise today.

In the preface, Professor Truchy of the University of Paris calls attention to the absence of any notes or references to the writings of professional economists (p. v). The reader will have no difficulty in discovering further evidence of the author's unfamiliarity with the literature of his varied subjects.

J. WILNER SUNDELSON

808 *Reviews and New Books* [December

GREEN, H. W. *Movements of families within the Cleveland metropolitan district, 1934.* Rep. no. 5. (Cleveland: Real Property Inventory of Metropolitan Cleveland. 1935. Pp. ix, 223.)

GUILD, J. P. and GUILD, A. A. *Handbook on social work engineering: an outline.* (Richmond, Va.: Whittet and Shepperson. 1936. Pp. 135. $1.50.)

HAMPTON, V. B. *New techniques in social science teaching: a case book.* (Stapleton, S.I., N.Y.: John Willig Press. 1936. Pp. 311. $2.75.)

LANGFORD, H. D. *Education and the social conflict.* (New York: Macmillan. 1936. Pp. xxviii, 210.)

LENGYEL, E. *Millions of dictators.* (New York: Funk and Wagnalls. 1936. Pp. xiii, 283. $2.)

Dr. Lengyel endeavors to answer two questions: Who are the real dictators of nations' destinies? and What does the average man think of his government? The fundamental thesis is that the average man dictates to dictators and writes history; a dictator may think he is the guide of his nation toward a certain goal while in reality he is being driven, by forces superior to himself, toward quite another goal. According to this theory dictators last only so long as they carry out the prejudices and passions of the masses. The material for the book was gathered by interviews with citizens of various countries and represents the reactions of many men to present conditions all over the world. There is not enough emphasis on the effect of skillful propaganda or on the fact that economic distress is the main cause of present conditions.

GEORGE M. JANES

LIPPINCOTT, I. *Sold out: an analysis of the New Deal—for those who must pay for it.* (New York: Appleton-Century. 1936. Pp. xv, 298. $2.)

Professor Lippincott's stated purpose is to explain how all citizens are to be burdened by the New Deal program. His position is thus summarized: "In truth, in the handling of all our complex problems there are other methods than those suggested by the high priests of the New Order, not one but many, and none could be worse than those already tried" (p. 246). Their inevitable outcome is socialism or fascism, or both, socialism being constantly advanced by the ignorant greed of both major political parties. The most important issue of the day is thus that of economic freedom *versus* regimentation, and the present period is the most critical in American history.

In developing these contentions, the author first describes a number of illusions that are misleading the nation. Most important are those of the potential abundance of national wealth and income, the equality of citizens, the permanence of democracy, progress, security, and governmental omniscience. All, he says, represent pregnant sources of political disintegration, as does the vast burden imposed by current social legislation. Similarly dangerous are governmental subsidies and favors typified by A.A.A. benefits and R.F.C. grants. Attention is directed to some difficulties of economic planning, and a plea is made for unfettered economic activity, in which "a moderate regulative policy" will solve all major economic problems. The concluding chapter seeks to identify the Roosevelt program with the wealth-sharing Townsend, Long, Sinclair, and Coughlin movements.

The volume cannot be described as dispassionate or objective. Although he illuminates the hallucinations of the wealth-sharers, the author appears to believe that political use of propaganda originated with the New Deal. He

repeatedly promises to explain the incidence of taxes; but his conclusions, even with respect to the property tax, are questionable. Inadequate consideration is given the facts that taxes provide public services and employment, that their increase since 1880 has been accompanied by a vast increase in free income and in the functions demanded of governments. In denouncing the A.A.A. and the R.F.C. he apparently regards bounties as an innovation, in spite of tariff history.

The statement is replete with unsubstantiated assertions, such as: "taxes rank first among all the problems that confront the American people" (p. 44); "all governments operate under the law of increasing costs" (p. 120); "in our day the coming of decay is facilitated because the masses have acquired complete political power" (p. 271); "the government that rests lightly upon the shoulders of the people confers the greatest blessings" (p. 257); "never before have they (American legislatures) attempted to tap the welfare of the provident classes for the purpose of distribution among the improvident" (p. 280); "whatever happens, our descendants only a few generations away are destined for country life, with survival not much above that in India and China" (p. 270).

DALE YODER

MAYER-DAXLANDEN, H. *Social-economic security by constitutional means.* (Philadelphia: Dorrance. 1936. Pp. 255.)

MOON, P. T., editor. *The Constitution and social progress: a series of addresses and papers presented at the annual meeting of the Academy of Political Science, November 14, 1935.* (New York: Academy of Pol. Sci., Columbia Univ. 1936. Pp. iv, 139.)

NEWFANG, O. *Economic welfare.* (New York: Barnes and Noble. 1936. Pp. 193. $1.50.)

PALM, F. C. *The middle classes then and now.* (New York: Macmillan. 1936. Pp. xiv, 421. $3.50.)

PEEK, G. N. and CROWTHER, S. *Why quit our own.* (New York: Van Nostrand. 1936. Pp. 353.)

RICHBERG, D. R. *The rainbow: after the sunshine of prosperity, the deluge of the depression, the rainbow of the NRA, what have we learned? Where are we going?* (Garden City, N.Y.: Doubleday, Doran. 1936. Pp. viii, 319.)

SMITH, R. H. and BRADWAY, J. S. *Growth of legal-aid work in the United States: a study of our administration of justice primarily as it affects the wage earner and of the agencies designed to improve his position before the law.* Rev. ed. Bur. of Labor Stat. bull. no. 607. (Washington: Supt. Docs. 1936. Pp. vii, 223. 20c.)

STEWART, M. S., and others. *Security or the dole?* Public Affairs pamph. no. 4. (Washington: Public Affairs Committee. 1936. Pp. 32. 10c.)

SULLENGER, T. E. *Social determinants in juvenile delinquency.* (New York: Wiley. 1936. Pp. 412. $3.50.)

TAYLOR, H., and others. *Contemporary problems in the United States.* 1935-36 ed. Vol. II. (New York: Harcourt Brace. 1936. Pp. viii, 531.)

TAYLOR, J. W. *Youth welfare in Germany.* (New York: Author, 525 W. 120th St. 1936. Pp. 259. $3.50.)

WOODBURY, C., editor. *Housing officials' yearbook, 1936.* (Chicago: Nat. Assoc. of Housing Officials. 1936. Pp. x, 244. $2.)

Considerably enlarged from the initial issue, the second number of this

yearbook gives an account of the activities of various federal housing organizations in 1935 and a more general description of the nature and work of state and local agencies. The Federal Housing Administration, the Housing Division and the Federal Home Loan Bank Board receive special attention. Another section is devoted to articles on problems of timely interest such as public relations, use of eminent domain and prefabricated housing. A summary of British experience with post-war housing subsidies and a review of housing in England in 1934 and 1935 are special features.

Those who wish to keep informed on the progress of public participation in housing will find this yearbook a valuable reference work.

LUTHER CONANT

The American economic system compared with collectivism and dictatorship. (Washington: Chamber of Commerce of the U. S. 1936. Pp. 36.)

The goodwill industries: a handbook. (Boston: Morgan Memorial Goodwill Press. 1935. Pp. v, 217. $1.)

In the Goodwill Industries, a movement of very recent years, the institutional church may be said to be upon a new departure—this time not being confined to local surroundings, but having a nation-wide territory in a particular field. While organized within the church, moreover, and largely sponsored by it, the undertaking is to be regarded as more or less independent, but always with spiritual implications, and with an undisguised spiritual message. The essential or the original program of the Goodwill Industries is the salvaging, sorting, cleaning, repairing, renovating, reconditioning, or reprocessing in general, of discarded or outworn articles, as clothing, shoes, furniture, etc., by persons unfit by reason of age or disability for ordinary occupations, and the selling of these made-over articles at low prices to the poor. A twofold service is thus rendered: giving employment to persons who otherwise could not get it; and the offer of necessary articles to persons who could not otherwise purchase them. The work in some places has been expanded to cover a wider field—day nurseries, industrial farms, rescue missions, recreation camps, and the like. Branches of Goodwill Industries are now to be found in over 200 cities of the United States; over 2,000,000 housewives coöperate in turning over to it out-worn articles; some $2,000,000 are paid in wages during the year; and "thousands of handicapped persons" are benefited. The full evaluation of this ambitious undertaking will have to come later when its results are better known. But it does represent a noble endeavor. It also denotes an attempt to carry on certain industrial undertakings without the profit motive.

HARRY BEST

Institute of Public Affairs: proceedings of the tenth annual session, Athens, Georgia, 1935-36. Part I. *World and national problems.* (Athens: Inst. of Pub. Affairs, Univ. of Georgia. 1936. Pp. xi, 190.)

Among the addresses here published are: "Principles of farm community organization" and "Farm communities in Eastern Prussia," by Franz Oppenheimer; and "Socialism, fascism and communism," by George Soule.

An outline for a housing study course. Housing sec. pub. no. 6. (New York: Welfare Council of New York City. 1936. Pp. 50. 35c.)

Peace action of Pope Benedict XV: a summary by the History Committee of Friedrich Ritter Von Lama's Die Friedensvermittlung Papst Benedikt XV. und

ihre Vereitlung durch den deutschen Reichskanzler Michaelis. (Washington: Catholic Assoc. for Internat. Peace. 1936. Pp. 24. 10c.)

Reine und angewandte Soziologie: eine Festgabe für Ferdinand Tönnies zu seinem achtzigsten Geburtstage. (Leipzig: Hans Buske. 1936. Pp. vii, 403. RM. 12.37.)

Contains essays on "Johann Peter Süssmilch und die Gesellschaftslehre des 18. Jahrhunderts," by Georg Jahn of the University of Halle; "Soziologie und Arbeitslehre," by Ewald Bosse of Oslo; "Probleme der Finanzsoziologie," by Gerhard Colm of the New School for Social Research, New York; "Zum soziologischen Verstehen der Geburtenziffern," by Robert Wilbrandt of Dresden.

The social sciences: their relations in theory and in teaching. Being the report of a conference held under the joint auspices of the Institute of Sociology and the International Student Service (British Committee) at King's College of Household and Social Science, London, from September 27-29, 1935. (London: Le Play House Press, 35 Gordon Sq. 1936. Pp. 222.)

Workers' nutrition and social policy. Stud. and rep. ser. B (social and econ. cond.) no. 23. (Geneva: Internat. Labour Office. New York: World Peace Found. 1936. Pp. vii, 249. $1.50.)

Youth: vocational guidance for those out of school. Office of Educ. bull. no. 18-4. (Washington: Supt. Docs. 1936. Pp. 81. 10c.)

Insurance and Pensions

Social Security in the United States: An Analysis and Appraisal of the Federal Social Security Act. By PAUL H. DOUGLAS. (New York: McGraw-Hill. 1936. Pp. xi, 384. $3.00.)

The Social Security act, although not so novel in many of its features as critics have implied, is nevertheless a milestone in American legislative history and raises economic problems of the utmost importance. The need for a book which would explain and assess its provisions, and show their relationship to previous experiments in governmental provision of security was imperative. In meeting this need Douglas has written yet another extraordinarily useful book.

Rather more than a third of the book is devoted to the background of the Act, special attention being paid to its legislative history. In view of the fact that many of the most questionable features of the Act were inserted as the Bill made its slow progress through Congress, this record is extremely valuable. The second section deals with the provisions of the Act as passed; and this is completed by a third section in which Douglas reports the action taken by the states and makes proposals for desirable next steps.

In common with many other authorities in this field, Douglas is especially critical of the unemployment compensation and old-age benefits programs. In the former he criticizes the use of the tax-offset device for stimulating state action, the absence of essential standards, the wide freedom given to the states through the additional credits provisions to set up unemploy-

ment funds that will seriously limit the protection afforded workers, the many exemptions and the absence of any provision safeguarding the rights of migrant workers or those living in states suffering exceptionally heavy unemployment.

The old-age benefits program is criticized for the many exclusions from coverage, for the use of the unwieldy reserve fund, for the absence of any federal financial participation and for the requirement that to obtain benefits, aged people must retire from regular employment. Although he points out that the calculation of benefits and the incidental record-keeping will create an almost intolerable administrative problem, Douglas does not suggest any modification of this ambitious attempt to provide old-age security exactly related to each individual's life earnings.

In the chapter on "Constitutional prospects" he pleads for an interpretation of the Constitution that will give the federal government power to deal with problems of an essentially national character. It would have been desirable to have made the further point that a changed attitude in this respect is required not only of Supreme Court judges but also of the people as a whole and their congressmen. It was not constitutional doubts but consciousness of states' rights that eliminated from the Bill many of the specific features which Douglas recommends in chapter 11. Federal definition of minimum standards of assistance and tests of need and the right to insist on civil service standards in administration were alike stricken out for this reason. The absence of standards in the unemployment compensation titles, without which Douglas' own proposal for federal subventions to offset the uneven incidence of unemployment between states could hardly be put into effect, was as much attributable to a dislike of federal control as to any fear of endangering the constitutionality of the Act.

In his chapter on "Some needed next steps," Douglas confines himself rather closely to the framework of the present Act. He suggests the addition of a health insurance system, but does not question the validity of the particular categorical approach embodied in the Act. Thus he would apparently retain the special treatment of dependent children and makes no proposal for a survivors' insurance plan. Yet such an addition would not merely render unnecessary the present death benefit so disproportionately costly to administer in the old-age benefit plan, but, given a satisfactory residual relief system, would practically eliminate the need for any special assistance for dependent children. In discussing financial problems, while indicating the weaknesses and limitations of wage and payroll taxes, Douglas does not raise the question whether these should not be dispensed with altogether in financing some of the types of benefit, in order to reserve them for other sections of a completed program where their use might be peculiarly appropriate. He suggests that the federal government should increase its maximum matching grant for old-age pensions (rather surpris-

ingly he does not propose that the much lower maximum for dependent children's allowances should also be raised) and recommends (also only for old-age pensions) a federal equalization grant to assist especially hard pressed states. It is however, becoming clear that the entire system of grants-in-aid embodied in the Act needs revision. Apart from Titles I and X, no two of the nine different grants are made on the same principles, and the differing bases cannot be logically defended. This revision in turn cannot be dissociated from the wider question of the total relationship between the federal government and the state and local authorities in security financing, involving knowledge of the nature of the residual relief system, the extent of need in the different categories within the states and the broad factors affecting local ability to pay.

EVELINE M. BURNS

Columbia Uninversity

NEW BOOKS

BETTERLEY, P. D. *Buying insurance: a problem of business management.* (New York: McGraw-Hill. 1936. Pp. 202. $2.50.)

DODD, W. F. *Administration of workmen's compensation.* (New York: Commonwealth Fund. London: Oxford Univ. Press. 1936. Pp. xviii, 845. $4.50.)

DORMAN, M. J. *Age before booty: an explanation of the Townsend plan.* (New York: Putnam's. 1936. Pp. 102. $1.)

This volume, with its foreword by Dr. Townsend himself, may be taken as an official explanation of the Townsend plan. There is a shortage of the monetary medium, and what is needed is a force pump driven by constitutional taxing power to pump annually some twenty billions of dollars through the arteries of the body politic, whether the times be good or bad.

GEORGE M. JANES

DOWNEY, S. *Why I believe in the Townsend plan.* (Sacramento: Sheridan Downey Pub. Co. 1936. Pp. 122.)

FALK, I. S. *Security against sickness: a study of health insurance.* (Garden City, N.Y.: Doubleday, Doran. 1936. Pp. 435. $4.)

GEPPERT, W. H. *A classified index of workmen's compensation cases, argued and adjudged in the Court of Appeals of Maryland.* (Baltimore: A. W. Zimmer. 1936. Pp. 226. $3.50.)

IVES, H. S., and others. *Compulsory automobile insurance.* Insur. ser. 24. (New York: Am. Management Assoc. 1936. Pp. 44. $1.)

LEVI, L. H. and GREGORY, J. K. *Federal and California old age and unemployment taxes: a correlated analysis of the taxing and benefit features of the federal Social Security act and the California Unemployment Insurance act.* (Los Angeles: Parker, Stone and Baird. 1935. Pp. vii, 175.)

MCDONALD, E. C., and others. *Group protection and social insurance administration.* Insur. ser. 26. (New York: Am. Management Assoc. 1936. Pp. 23. 50c.)

REGNOLDS, K. G. *Practical economics of life insurance: a textbook.* 2nd ed. (Lincoln, Neb.: Research Pub. Co. 1936. Pp. 160. $2.)

SCHMIDT, E. P. *Old age security.* (Minneapolis: Univ. of Minnesota Press. 1936. Pp. 32. 25c.)

WILLIS, E. C., editor. *North Carolina Workmen's Compensation act annotated, with amendments and decisions to July 1, 1935, including rules of the Commission, opinions of the Attorney General and a compensation citator.* (Raleigh: N.C. Industrial Commission. 1935. Pp. iv, 173.)

WINTER, W. D. *A short sketch of the history and principles of marine insurance.* 2nd ed. (New York: Insur. Soc. of N.Y. 1935. Pp. 47.)

WYATT, B. E. *Private group retirement plans.* (Washington: Graphic Arts Press. 1936. Pp. x, 145.)

California and federal unemployment insurance (payroll taxes). Explanation of the law, federal Social Security act, California Unemployment Insurance law, rules and regulations, charts and forms, indexed. (New York: Commerce Clearing House. 1936. Pp. 136. $1.)

Company sickness benefit plans for wage earners. (Princeton: Princeton Univ. Industrial Rel. Sec. 1936. Pp. 72. $1.50.)

National Board of Fire Underwriters: proceedings of the seventieth annual meeting, New York, May 28, 1936. (New York: Nat. Board of Fire Underwriters. 1936. Pp. 168.)

New York and federal unemployment insurance (payroll taxes). Explanation of the law, federal Social Security act, New York unemployment insurance law, questions and answers, regulations and forms, indexed. (New York: Commerce Clearing House. 1936. Pp. 118. $1.)

The Townsend crusade: an impartial review of the Townsend movement and the probable effects of the Townsend plan. (New York: Committee on Old Age Security of the Twentieth Century Fund. 1936. Pp. 93. 50c.)

The Townsend plan: national recovery program. Ready ref. 2nd ed. (Chicago: Old Age Revolving Pensions. 1936. Pp. 95. 25c.)

The Townsend plan: a selected list of references. (New York: N.Y. Public Lib. 1936. Pp. 8. 10c.)

Pauperism, Charities, and Relief Measures

NEW BOOKS

BRUCE, I. C. and EICKHOFF, E. *The Michigan poor law: its development and administration, with special reference to state provision for medical care of the indigent.* Soc. serv. monog. no. 23. (Chicago: Univ. of Chicago Press. 1936. Pp. xii, 292. $2.50.)

In this study of Michigan, the writers follow the general plan adopted for such studies by the University of Chicago School of Social Service Administration. Part 1 traces the development of poor relief legislation in Michigan. This legislation has not been thoroughly modernized. For example, the system of indoor relief has been encouraged; limitations have been placed on outdoor relief; and the social problems involved seem not to be understood.

The system of health care is quite inadequate. Medical associations have proved a serious obstacle to progress. In 57 per cent of the counties there are no tax-supported hospitals, and the care of the sick in almshouses is inadequate. Some medical care is given at the University Hospital, and the state law authorizes hospital care for crippled children. Such care may be secured at private hospitals and paid for in part from public funds.

The subsidy system, however, does not work satisfactorily. The authors suggest its improvement or abolition. One-half of the book is devoted to the

presentation of select documents, including laws, judicial decisions, and related subjects.

GEORGE B. MANGOLD

COLCORD, J. C. *Cash relief.* (New York: Russell Sage Found. 1936. Pp. 263. $1.50.)

CREECH, M. *Three centuries of poor law administration: a study of legislation in Rhode Island.* Soc. serv. monog. no. 24. (Chicago: Univ. of Chicago Press. 1936. Pp. xxii, 331. $3.)

In this study the poor laws are traced in their evolution through the colonial period up to the present day. The principle of social responsibility for the poor has steadily prevailed, each town being expected to provide for its resident poor. Important revisions of the poor laws were made in 1798, 1857, 1912, 1914, and 1929.

During the first half of the nineteenth century various methods of administration were attempted; town poor farms were established, the boarding-out of indigents declined, and some medical care was provided.

Among the efforts at reform after the middle of the century were the following: improvement in the administration of local almshouses; the erection of a state almshouse; and the introduction of centralization. In later years almshouse care declined, the term "Overseer of the Poor" was dropped, and a state unemployment relief commission created.

The present system is very inadequate. Considering the small size of the state, an excellent opportunity offers itself for the much needed centralized supervision of poor law administration.

The study suggests that a spirit similar to that prevailing when Rhode Island was founded is needed today.

GEORGE B. MANGOLD

SHAFFER, A., KEEFER, M. W. and BRECKINRIDGE, S. P. *The Indiana poor law: its development and administration, with special reference to the provision of state care for the sick poor.* Soc. serv. monog. no. 28. (Chicago: Univ. of Chicago Press. 1936. Pp. x, 378. $3.)

Because of the interesting character of its poor-law history, Indiana is one of the states chosen for study. In this state responsibility for the care of the sick received early attention.

Part 1 deals with the poor law and its administration and Part 2 with the care of the sick poor in Indiana. In this state as in many other states the county became the administrative unit for the care of the poor. The township, however, administered the relief. An efficiency board of state charities, recently renamed the Department of Public Welfare, has proved a tremendous asset to the state.

For the care of the sick poor an excellent system of county hospitals has been established. Seven counties also have erected tuberculosis hospitals. A system of out-patient service has been worked out but this suffers from the abuses common among services of this type. The state tuberculosis hospital cares for both the indigent and partly indigent, and the three Indiana University hospitals care not only for indigents but for many pay and part-pay cases as well. Although this service is not adequate it represents an important forward step in the acceptance of state responsibility for medical care of the people.

Handbook of the Soviet Union. (New York: American-Russian Chamber of Commerce. 1936. Pp. 562.)

Part 3 consists of selected documents and various appendices, such as judicial decisions, opinions of the attorney-general, and lists of statutes.

GEORGE B. MANGOLD

WILCOX, J. K. *Unemployment relief documents: guide to the official publications and releases of F.E.R.A. and 48 state relief agencies.* (New York: Wilson. 1936. Pp. 95.)
A bibliography.

Public relief for transient and non-settled persons in the State of New York: a study of the nature and administration of the care extended destitute persons not having a legal settlement in the community where they receive aid. By the Governor's Commission on Unemployment Relief. (Albany: State House. 1936. Pp. 171.)

Supplementary relief in New Jersey. (Newark: State of N.J. Emergency Relief Admin. 1936. Pp. 51.)

Unemployment Assistance Board: report for the period ended 31st December, 1935. (London: H. M. Stationery Office. 1936. Pp. 309. 4s. 6d.)

Work relief in the State of New York: a review of its characteristics, functioning, and value. By the Governor's Commission on Unemployment Relief. (Albany: State House. 1936. Pp. 113.)

Socialism and Co-operative Enterprises

NEW BOOKS

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BROWDER, E. R. *What is communism?* (New York: Vanguard. 1936. Pp. 254.)

COLE, G. D. H. *The simple case for socialism.* (London: Gollancz. 1935. Pp. 288.)

FOWLER, B. B. *Consumer coöperation in America: democracy's way out.* (New York: Vanguard. 1936. Pp. viii, 301. $2.)

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LANG, P. *Peace versus war: the communist position.* (New York: Workers Lib. Pubs. 1936. Pp. 31. 5c.)

MEHRING, F. *Karl Marx: the story of his life, with illustrations and facsimile reproductions, notes by the author, an appendix prepared under the direction of Eduard Fuchs based on researches of the Marx-Engels Institute, a bibliography and an index.* Translated by EDWARD FITZGERALD; edited by RUTH NORDEN and HEINZ NORDEN. (New York: Covici Friede. 1935. Pp. xxv, 608.)

SMITH, A. and SMITH, M. *I was a soviet worker.* (New York: Dutton. 1936. Pp. 298.)

THOMAS, N. M. *After the New Deal, what?* (New York: Macmillan. 1936. Pp. 253. $2.)

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PERIODICALS

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Cost of living in the United States, 1914-1936. Stud. no. 228. (New York: Nat. Industrial Conf. Board. 1936. Pp. ix, 99. $2.50.)

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In the Trade Promotion Series of the federal Department of Commerce have appeared Bulletin No. 164, *Handbook of Foreign Currencies* (pp. 232, 20c.) ; No. 165, *Industrial Property Protection throughout the World,* by James L. Brown (pp. 184, 20c.).

The United States Tariff Commission has issued in the second series Report no. 108, *Report to the President on Wool Knit Gloves and Mittens, with Appendixes, Proclamation by the President* (pp. 43, 10c) ; Report No. 111, *The Trade Agreement with Canada* (pp. 135, 15c.) ; Report No. 112, *Report to the President on Cotton Cloth, with Appendixes, Proclamation by the President* (pp. 168, 15c.).

The Tariff Commission has published in mimeographed form a tabulation which shows the treaties and executive agreements containing provisions relating to customs tariff in force between the United States and other countries, under the title *Commercial Treaties and Agreements of the United States in Force June, 1936* (pp. 9). Also, *Concessions Granted by the United States in the Trade Agreement with the Kingdom of the Netherlands,* containing digests of trade data respecting the products affected by the concessions (pp. 232) ; *Concessions Granted by the United States in the Trade Agreement with Switzerland,* containing digests of trade data respecting the products affected by the concessions (pp. 286) ; *Concessions Granted by the United States in the Trade Agreement with Canada,* containing digests of trade data respecting the products affected by the concessions (pp. 639).

The Federal Power Commission has issued in Rate Series No. 3, *Average Typical Residential Bills by States, Geographic Divisions and the United States (January 1, 1935)* (pp. 51, 15c.) ; No. 4, *Rates for Electric Service to Commercial and Industrial Customers* (pp. 256, 50c.).

The Federal Power Commission has issued in Power Series No. 3, *Cost of Distribution of Electricity* (pp. 148, 35c.) ; No. 4, *The Use of Electric Power in Transportation* (pp. 61, 25c.).

Under the title *The Significance of Agricultural Imports,* Senate Document No. 263, 74th Congress, 2nd Session, has been published a letter from the Secretary of Agriculture to Senator Louis Murphy transmitting a statement with regard to the causes and significance of the recent increase in agricultural imports into the United States (pp. 27).

The Agricultural Adjustment Administration issued in August, 1936, a pamphlet on *Farm Buying and Industrial Recovery: A Survey of Shipments of Manu-*

factured and Industrial Commodities from Manufacturing Areas to Agricultural Areas July 1, 1932, to June 30, 1935 (pp. 22).

The Division of Land Utilization, Land Use Planning Section, Resettlement Administration, in June, 1936, issued a bulletin summarizing information in regard to planning projects.

Labor

The federal Department of Labor has printed in a series of reprints from the *Monthly Labor Review* of March and May, 1936, the following articles: Serial No. R 360, *Methods of Financing Workmen's Compensation Administrations and Funds,* by Marshall Dawson (pp. 14); Serial No. R 366, *Wages, Hours, Employment, and Annual Earnings in the Motor-Vehicle Industry: 1934,* by N. A. Tolles and M. W. La Fever (pp. 33); Serial No. R 367, *Workmen's Compensation Legislation in the United States and Canada, 1935* (pp. 25); Serial No. R 390, *Earnings in the Cigarette, Snuff and Chewing and Smoking-Tobacco Plants in 1933-35* (pp. 14); Serial No. R 391, *Hourly and Weekly Earnings in Textile Dyeing and Finishing: Cotton, Silk, and Rayon, 1933 and 1934* (pp. 28); Serial No. R 395, *Employment and Pay Rolls* (pp. 30).

The Women's Bureau of the federal Department of Labor has published Bulletin 140, *Reëmployment of New England Women in Private Industry,* by Bertha M. Nienburg (pp. 118, 15c.); No. 146, *A Policy Insuring Value to the Woman Buyer and a Livelihood to Apparel Makers,* by Bertha M. Nienburg (pp. 22, 10c.).

The Division of Economic Research of the National Labor Relations Board issued in August Bulletin No. 1, *Governmental Protection of Labor's Right to Organize.* This is a "summary of evidence introduced at a hearing before the National Labor Relations Board bearing upon the factual basis of the National Labor Relations act and the reasonableness of the regulations embodied therein" (pp. 174).

NOTES

The forty-ninth annual meeting of the AMERICAN ECONOMIC ASSOCIATION will be held in Chicago, December 28-30, with headquarters at the Stevens Hotel. The preliminary program has been arranged as follows:

Monday, December 28

2:30 P.M. FIRST SESSION

1. Tendencies in World Economics—chairman, Frederick S. Deibler, Northwestern University

   Papers: Marcus Nadler, New York University, "Economic Interdependence of the Nations: Present and Future"; A. M. Fox, United States Tariff Commission, "Quantitative and Qualitative Changes in International Trade during the Depression"; Arthur Feiler, New School for Social Research, "Current Tendencies in Commercial Policy: Most Favored Nation Treaties; Regional Arrangements; Autarchy"; Vernon Mund, University of Washington, "Trade Problems of the Pacific"

2. Public Debts in the United States—chairman, Roy G. Blakey, Department of Commerce

   Papers: Mabel Newcomer, Vassar College, "Analysis of the Nature of American Public Debts, Federal, State and Local: Productive and Non-Productive. Estimates of the Present Constitution of the Debts"; Paul Studenski, New York University, "The Limits of Possible Debt Burden, Federal, State, Local"; Simeon Leland, University of Chicago, "Debt Retirement and the Budget"; Joseph B. Hubbard, Harvard University, "Absorption of the United States Debt"

3. Research in Business Cycles (Round Table; joint meeting with the American Statistical Association)—chairman, Warren M. Persons, New York City

   Papers: Willford I. King, New York University, "Progress Report of the American Statistical Association Committee on the Causes of the Business Collapse of 1929-32"; Joseph B. Hubbard, Harvard University, "Questions Raised by the Recent Business Collapse and Recovery"; K. Pribram, "The Notions of the 'Economic System' Underlying Business Cycle Analysis"; Gottfried Haberler, Harvard University, "Business Cycle Theories and Their Statistical Verification"; N. J. Silberling, Stanford University, "A Study of Recent Business Experience"

   Discussion: Irving Fisher, Yale University; Alvin H. Hansen, University of Minnesota; Carl Snyder, New York City

5:00 P.M. MEETING OF THE EXECUTIVE COMMITTEE

8:00 P.M. SECOND SESSION

1. Unemployment Insurance and Relief (joint meeting with the American Association for Labor Legislation)—chairman, Walton Hamilton, Social Security Board

   Papers: W. R. Williamson, Social Security Board, "Unemployment Coverage of the Social Security Act"; Corrington E. Gill, Washington, D.C., "The Present and Future of Unemployment Relief in Relation to Insurance"; E. B. Schwulst, The Bowery Savings Bank, "The Problem of Investment of Unemployment Insurance Reserves"

   Discussion: E. E. Witte, University of Wisconsin; J. W. Horwitz, Harvard University

2. Money (joint meeting with the American Statistical Association)—chairman, W. Randolph Burgess, Federal Reserve Bank

Papers: Alvin H. Hansen, University of Minnesota, "Situation of Gold Today in Relation to World Currencies"; Bertil Ohlin, Handelshogskolen, Stockholm, "Existing Mechanisms and Objectives for the Control of Exchange"; John H. Williams, Harvard University, "Adequacy of Existing Currency Mechanisms under Varying Circumstances"

Tuesday, December 29

9:00 A.M. BUSINESS MEETING (Reports of Officers and Committees, etc.)

10:00 A.M. THIRD SESSION

1. Housing—chairman H. E. Hoagland, Federal Home Loan Bank Board
   Papers: George Terborgh, Federal Reserve Board, "Present Situation of Inadequate Housing"; Howard H. Preston, University of Washington, "Financing of Housing"; Charles F. Lewis, Buhl Foundation, "Economic Implications of Modern Housing"
2. Selected Topics in Statistical Economics (joint meeting with the American Statistical Association)—chairman, Henry Schultz, University of Chicago
   Paper: T. O. Yntema, University of Chicago, "A Theory of Loss Leaders"
   Discussion: A. J. Nichol, Duke University
   Paper: R. H. Whitman, R. H. Macy and Company, "Relation of Price to Quality and to Degree of Competition"
   Discussion: F. E. McIntyre, Stanford University
   Paper: H. P. Hartkemeier, University of Missouri, "Short Selling and the Stabilization of Stock Prices"
   Discussion: Garfield Cox, University of Chicago
3. Problems of Measurement of National Income and National Wealth—chairman, Wesley C. Mitchell
   Papers: Gerhard Colm, New School for Social Research, "Treatment of Government Income and Expenditure in Its Bearing upon Measurement of National Income"
   Discussion: John Maurice Clark, Columbia University; Mabel Newcomer, Vassar College
   Carl Shoup, Columbia University, "The Relation of Net to Gross in Taxable Income"
   Discussion: Roy Blough, University of Cincinnati; George O. May, New York City
4. Money (Round Table)—chairman, James W. Bell, Northwestern University
   Discussion of the papers presented at the Money session on December 28

2:30 P.M. FOURTH SESSION

1. Improvement of Personnel in the Technical Services of Federal, State and Local Governments
   Papers: Leonard D. White, United States Civil Service Commission, "New Opportunities for Economists and Statisticians in Federal Employment"; Isador Lubin, Department of Labor, "Government Employment as a Professional Research Career in Economics"
2. Economic Problems Involved in Research on Prices and Costs in American Industries (Round Table)—chairman, Frank A. Fetter, Princeton University
   Papers: Arthur Robert Burns, Columbia University, "Industry Studies and the Nature of Competition"; Abraham Berglund, University of Virginia, "Industrial Price Policies and the Attributes of Industrial Prices"; Frederick C. Mills, National Bureau of Economic Research, "Industrial Productvity and Prices"

Discussion: Henry L. Schultz, University of Chicago; Alvin Hansen, University of Wisconsin; Edward Chamberlin, Harvard University

3. Taxes on Distribution (Round Table; joint meeting with the National Association of Marketing Teachers)

   Papers: Neil H. Jacoby, Illinois Tax Commission, "Sales Taxes and Their Administration"; A. G. Buehler, University of Vermont, "Chain Store Taxes"; C. O. Sherrill, American Retail Federation, "Distribution Taxes from a Business Man's Standpoint"

4. Recovery (Round Table)—chairman, Willford I. King, New York University

   Papers: Ernest S. Griffiths, American University, "Indicia of Recovery for the United States"; Alexander Sachs, Lehman Brothers, "Indicia of Recovery for England"; James Magee, New York University, "Indicia of Recovery for Sweden"; L. H. D. Weld, McCann, Erickson, "Regional Barometers of Recovery"

5. Housing (Round Table)—Discussion of the papers presented at the general session on Housing

8:00 P.M. FIFTH SESSION

Presidential Addresses—chairman, Walter F. Willcox, Cornell University

Addresses: Joseph S. Davis, Stanford University, president of the American Statistical Association; Arthur N. Holcombe, Harvard University, president of the American Political Science Association; Henry P. Fairchild, New York University, president of the American Sociological Society; Joseph P. Chamberlain, president of the American Association for Labor Legislation; Alvin Johnson, New School for Social Research, president of the American Economic Association

Wednesday, December 30

9:00 A.M. BUSINESS MEETING

10:00 A.M. SIXTH SESSION

1. Problems of the South (joint meeting with the American Farm Economic Association)—chairman, Broadus Mitchell, Johns Hopkins University

   Papers: Claudius T. Murchison, Cotton-Textile Institute, "Future of Cotton"; Calvin Hoover, Duke University, "Possibilities of Agrarian Reorganization"

   Discussion: R. J. Saville, Louisiana State University

   Papers: Clarence E. Bonnett, Tulane University, "Industrial Development"; Lester Granger, National Urban League, "Position of the Negro in Southern Development"; Howard Kester, Nashville, "Southern Tenant Farmers' Prospects"

2. Distribution of Purchasing Power and Business Fluctuations (Round Table)—chairman, A. B. Wolfe, Ohio State University

   Papers: A. B. Wolfe, Ohio State University, "Usefulness of the Concept of Purchasing Power in the Analysis of Business Fluctuations"; Hans Neisser, University of Pennsylvania, "Stabilization of Purchasing Power through "Wage Policies"; James Harvey Rogers, Yale University, "Stabilization of Purchasing Power through Use of Public Credit"

3. Economics of Imperfect Competition (Round Table)

   Papers: Emil Lederer, New School for Social Research, "Monopolistic Competition and the Theory of Value"; E. H. Chamberlin, Harvard Uni-

versity, "Some Differences between Imperfect and Monopolistic Competition"; M. Abramovitz, Brooklyn, "Monopolistic Competition and Economic Change"; Vanderveer Custis, Northwestern University, "Monopolistic Competition and the Regulation of Industry"; B. N. Behling, University of Illinois, "Monopolistic Competition and Public Utilities"

12:00 M. MEETING OF THE EXECUTIVE COMMITTEE

2:30 P.M. SEVENTH SESSION

1. Electric Power—chairman, Arthur Morgan, Tennessee Valley Authority
   Papers: Morris Llewellyn Cooke, Rural Electrification Administration, "Forecast of Power Developments"; John Maurice Clark, Columbia University, "Practicability of a Scientific Rate Structure"; Hans Staudinger, New School for Social Research, "Coördination of Public and Private Power Interest in the European Countries"
2. Speculation
   Papers: C. O. Hardy, Brookings Institution, "The Present Status of the Theory of Speculation"; G. Wright Hoffman, University of Pennsylvania, "Control of Speculation under the S. E. C. and the Stock Exchange Act"; Floyd F. Burtchett, University of California at Los Angeles, "Unorganized Speculation: the Possibility of Control"

The following names have been added to the membership of the AMERICAN ECONOMIC ASSOCIATION since August 1:

Bagley, W. C., Jr., 410 Riverside Dr., New York City.
Baker, H. B., Friends University, Wichita, Kan.
Barclay, J., Keene Valley, N.Y.
Barlow, W. D., c/o National Park Service, Luray, Va.
Belmore, C. W., 24 Elm St., Wakefield, Mass.
Billig, W. C., Dept. of Econ., c/o Dr. Ira Cross, Univ. of California, Berkeley, Calif.
Burris, E. C., School of Commerce, Oklahoma Agric. and Mech. College, Stillwater, Okla.
Butt, S. M., 2123 "I" St. N.W., Washington, D.C.
Carlson, V., Antioch College, Yellow Springs, Ohio.
Childs, F. E., 815 W. 37th St., Los Angeles, Calif.
Cipriani, A. B., 1239 Gulf Bldg., Pittsburgh, Pa.
Cohen, W. J., Social Security Board, Washington, D.C.
Collins, W. J., St. Ambrose College, Davenport, Iowa.
Cronin, F. D., 4825 N. Lane, Bethesda, Md.
Delson, H., 370 Central Park W., New York City.
Eliason, R. O., 5507 13th St. N.W., Washington, D.C.
Fish, Mrs. E. N., Abington Apartment Hotel, 700 Seward Ave., Detroit, Mich.
Griffith, C., 2303 Fuller St., Philadelphia, Pa.
Haas, G. C., Director of Research and Statistics, Treasury Department, Washington, D.C.
Haber, W., Overidge Dr., Ann Arbor, Mich.
Harris, M., 1702 Summit Pl. N.W., Apt. 505, Washington, D.C.
Kerr, C., Antioch College, Yellow Springs, Ohio.
Kerschbaum, P. R., 6015 Kimbark Ave., Chicago, Ill.
Magdoff, H. S., 6633 Blakemore St., Philadelphia, Pa.
Miller, T. A., Box 220, Wesleyan Station, Middletown, Conn.
Ragan, R., 761 Columbia St., College Ter., Palo Alto, Calif.
Ritchie, F., Dept. of Econ., DePauw University, Greencastle, Ind.
Ross, M., 508 Ontario Apts., Ontario Rd. and 18th St. N.W., Washington D.C.
Sweet, J. L., 2957 Lakewood Ave., Chicago, Ill.
Troxel, C. E., Dept. of Econ., Wayne University, Detroit, Mich.
Underhill, H. F., 990 Broadway, San Francisco, Calif.
Weintraub, D., Works Progress Administration, 12 S. 12th St., Philadelphia, Pa.
Wellck, A. A., Holland House, Forest Hills, L.I., N.Y.

The Social Science Research Council announces that research training fellowships and grants-in-aid of research will be offered again in the academic year 1937-38. The closing date for the receipt of applications for pre-doctoral fellow-

ships for graduate study is March 15, 1937; for pre-doctoral field fellowships, February 1, 1937; for post-doctoral research training fellowships, February 1, 1937; and for grants-in-aid of research, January 15, 1937. (Address: 230 Park Avenue, New York City.)

In 1935 the First National Bank of Portland announced a prize economic essay contest. There were two classes of awards, an undergraduate contest and an open contest. In the former the prizes were: first prize, $400, as a cash scholarship to be used in any northwestern institution of higher education; second prize, $200. The open contest was not restricted as to age, education or residence. The first prize was $750, and the second prize, $250.

The first prize in the open contest was won by Joseph Waldo Emerson, associate professor of history at Oregon State College, whose paper was entitled "An Historical Approach to the Marketing Problems of the Apple Industry in Oregon"; and the second prize, by Wesley C. Ballaine, with the Federal Reserve Bank in Seattle, on "The Effect of Fluctuating Foreign Exchange Values upon Economic Activity in the Pacific Northwest." Prizes in the undergraduate contest were won by students of Reed College.

The Quarterly Journal of Economics announces a limited edition of an analytical index of the volumes which have appeared during its fifty years of publication. This will be sent without charge to all present paying subscribers and to new subscribers whose names are received before January 1, 1938. To others the price will be $1.00, post paid. As the edition will be limited, those desiring to order the index are requested to do so without delay (Harvard University Press, Randall Hall, Cambridge, Massachusetts).

Announcement is made of the publication of a new quarterly entitled *The Public Opinion Quarterly,* published by the School of Public and International Affairs of Princeton University, under the editorship of DeWitt Clinton Poole. The first issue will appear December 15, 1936; subscription $4.00, yearly.

The federal Department of Commerce has published a new edition of the *List of Publications of the Department of Commerce,* under date of July 1, 1936 (pp. 143).

A meeting of the Academy of Political Science was held in New York, November 12, 1936 at which papers were presented dealing with "Transportation Development in the United States."

The annual conference of the New England Institute of Coöperation was held at Massachusetts State College in June.

Appointments and Resignations

Laurence J. Ackerman has been added to the teaching staff of the Wharton School at the University of Pennsylvania as instructor in insurance.

James P. Adams, for some time chairman of the department of economics at Brown University, was made acting president of the University for the first semester of the current year, on account of the illness of President Barbour.

I. W. Alm is assistant professor of finance at the School of Business Administration of Indiana University.

Oscar L. Altman has been appointed instructor in the department of economics at Ohio State University.

C. P. Anson has been appointed instructor at the University of North Carolina.

Fred A. Arnold has accepted a position as associate professor of economics at Texas Agricultural and Mechanical College.

D. M. Beights, professor of accounting at the University of Florida, taught during the past summer at the Sam Houston State Teachers College at Huntsville, Texas.

Marguerite E. Bicknell, graduate assistant at Massachusetts State College, spent four weeks in an investigation of the share cropper problem in Mississippi and Arkansas.

George E. Bigge is now chairman of the department of economics at Brown University.

E. L. Bogart, head of the department of economics at the University of Illinois, has returned from Europe, where he spent a semester's leave of absence.

Camille Botte has resigned his position as instructor in economics at Ohio State University to become supervisor for WPA projects for Ohio.

Charles H. Bowen has been appointed assistant instructor in economics at the University of Kansas.

Alfred W. Briggs is now director of the Wisconsin Public Welfare Department.

Stephen D. Brown, assistant professor in the College of Economics and Business at the University of Washington, has returned from his leave of absence.

Robert F. Bryan has been appointed instructor in the department of economics and social institutions at Princeton University.

Walter Burnham has been appointed instructor in accounting at Ohio State University.

Norman Burns, economist with the United States Tariff Commission, is on leave at Yale University for the first semester.

Edward C. Burris has been promoted from assistant professor to associate professor of economics at Oklahoma Agricultural and Mechanical College.

Grant I. Butterbaugh, assistant professor in the College of Economics and Business at the University of Washington, has returned from a year's leave of absence.

S. A. Caldwell, associate professor of economics at Louisiana State University, has resigned to accept the directorship of the Northeast Center of Louisiana State University at Monroe.

Ralph Cassady has been appointed to the staff of the newly organized School of Business Administration at the University of California at Los Angeles.

James E. Chace, Jr., assistant professor of economics and business management at the University of Florida, acted as a special representative of the United States Department of Labor in establishing a list of eligibles for the United States Employment Service in Florida during the summer.

A. H. Chute, formerly of Ohio State University, has gone to the University of Minnesota to take Professor Ralph Cassady's place as assistant professor of marketing.

Rudolf Clemen, formerly president of Whitman College, has been appointed lecturer on the staff of the College of Economics and Business at the University of Washington.

Denzel C. Cline of Princeton University has special leave of absence for the academic year 1936-37, in order to give full time to the work of the Princeton Survey of Local Government Administration in New Jersey.

Clem Collins has been appointed dean of the School of Commerce at the University of Denver.

Mary M. Crawford has been appointed instructor in the department of economics at Indiana University.

Walter F. Crowder has been granted a year's leave of absence from the College of Commerce of the University of Iowa to serve as head of the Debt Study in the Division of Economic Research, Bureau of Foreign and Domestic Commerce.

F. N. Curley is instructor in finance at the Wharton School at the University of Pennsylvania.

Clarence H. Curtis has been appointed assistant professor at Mount Royal College, Calgary.

Roy Emerson Curtis of the department of economics at the University of Missouri, has been appointed dean of the School of Business and Public Administration.

Frederick St. L. Daly is assistant professor of economics at Tufts College.

Kingsley Davis has been appointed assistant professor of economics and sociology at Clark University.

Ralph C. Davis has been promoted to the rank of professor of industrial management at Ohio State University.

Clive Day has become professor emeritus at Yale College.

Kenneth Dick of the University of Idaho is instructor in accounting at the College of Commerce at Louisiana State University.

Charles A. Dilley of Kansas Wesleyan University is instructor in economics at Alabama Polytechnic Institute.

Edgar J. Dowling of the University of Pittsburgh is assistant instructor in accounting and statistics at the University of Kansas.

Julian S. Duncan of St. John's College has been promoted to the rank of associate professor.

John Dunlop of the University of California is acting instructor in economics at Stanford University for the year 1936-37.

John E. Dykstra is instructor in industrial management at the University of Kansas.

Walter Egle of Freiburg University has been appointed assistant professor of economics at Ohio State University.

D. M. Erb, associate professor of economics at Stanford University, is acting as executive head of the department of economics during the autumn and winter quarters.

Edward G. Eriksen has left the University of Minnesota to accept an appointment as assistant professor of accounting at Wayne University in Detroit.

Elmer D. Fagan served during the summer as acting executive head of the department of economics at Stanford University.

Theodore A. Fetter has resigned his position with the Southwestern Freight Bureau in order to become a tariff examiner for the Interstate Commerce Commission.

Cecil H. Fewell of the University of Texas is an instructor in business administration at the University of New Mexico.

Wilfred J. Fleig is an instructor in accounting at Ohio State University.

Vernon Fowke has been promoted to the rank of assistant professor at the University of Saskatchewan.

John H. Frederick, assistant professor of marketing at the University of Pennsylvania, is serving as chief of the Distribution of Manufacturers' Sales Division of the Census of American Business, United States Bureau of the Census.

Philip L. Gamble, assistant professor at Massachusetts State College, spent the summer in England in connection with studies on labor problems.

Mary B. Gilson has resumed her work as assistant professor of economics at the University of Chicago after a year spent in study in Europe.

Martin Glaeser, professor of economics at the University of Wisconsin, is on leave of absence for the current academic year in order to act as economic adviser to TVA.

Richard J. Gonzalez has resigned his position as assistant professor of economics at the University of New Mexico in order to accept a position at the University of Texas.

Carter Goodrich, on leave from Columbia University for the present academic year, is serving as United States Labor Commissioner in Geneva.

William Haber has resigned his positions in the department of economics at Michigan State College and as deputy administrator for the Works Progress Administration in order to accept an appointment as professor of economics at the University of Michigan Institute of Public and Social Administration.

Robert Murray Haig is on leave from Columbia University for the present academic year. During the autumn he has been in England, engaged in research on a study of the concept of taxable income in certain European countries.

Robert W. Harbeson, formerly of Iowa State Teachers College, has been appointed assistant professor of economics at Rutgers University.

E. R. Hawkins of Pennsylvania State College has been appointed instructor of business administration at the State College of Washington.

Clarence Heer has resumed his duties at the University of North Carolina after a year's leave of absence with the University of Chicago.

Richard B. Heflebower has been promoted to the rank of professor of economics and director of the School of Business Administration at the State College of Washington.

Robert S. Holmes, who has been acting assistant professor of economics at Oberlin College for the past two years, has been appointed examiner with the Securities Exchange Commission.

Harold Hutcheson has been appointed instructor in economics at Connecticut College.

Roy W. Jastram is acting instructor in the department of economics at Stanford University.

Jens P. Jensen of the University of Kansas received the honorary degree of doctor of laws from Dakota Wesleyan University last June.

Harry Jerome is on leave of absence from the department of economics at the University of Wisconsin in order to supervise a research project of the WPA on the question of the displacement of labor due to improved processes and machinery.

Michael Jucius has been appointed instructor in industrial management at Ohio State University.

John S. Kegg has been appointed assistant professor of economics and sociology at Earlham College.

Forrest E. Keller has been appointed assistant professor of economics at West Virginia University to fill the place of J. C. Pettee.

Fred O. Kiel is instructor in economics at the University of New Mexico.

Charles J. Kiernan has been promoted to the rank of full professor of economics at St. John's University, Brooklyn, New York.

Hugh B. Killough has resumed his work at Brown University after having been abroad on leave in order to gather materials for his book on international trade.

Robert C. King, formerly assistant director of the Section of Property and Equipment, Federal Coördinator of Transportation, has been appointed economist by the United States Tariff Commission.

R. deR. Kip is instructor in insurance at the Wharton School, University of Pennsylvania.

Noel P. Laird of Franklin and Marshall College was a visiting professor at the Boston University summer school.

Murray W. Latimer, chairman of the United States Railroad Retirement Board, is teaching social insurance at the Wharton School, University of Pennsylvania.

Ben W. Lewis of the department of economics at Oberlin College has returned from a year's leave of absence in England, and has been promoted to a full professorship.

Gault W. Lynn, formerly of the University of California, is instructor in economics at Stanford University.

John E. McDonough, associate professor of political economy at Yale University, has received a leave of absence to join the staff of the Securities and Exchange Commission in Washington in the Trading and Exchange Division.

Walter B. McFarland, Jr., is on leave for the present academic year from his position at the University of New Mexico.

J. B. McFerrin is instructor of economics at the University of North Carolina.

W. Rupert Maclaurin, formerly instructor in economics at the Harvard Graduate School of Business Administration, is assistant professor of economics at Massachusetts Institute of Technology.

John W. McNeill has been appointed professor of commerce at Armstrong Junior College, Savannah, Georgia.

B. A. May, formerly of the University of Iowa, has been appointed instructor in economics at the University of Denver.

Elizabeth May, on leave of absence for the present academic year from the department of economics and sociology at Goucher College, is research associate in social studies for the American Association of University Women in Washington.

Geoffrey May has been appointed assistant director of the Bureau of Public Assistance and chief of the Division of Plans and Grants of the Social Security Board.

O. E. D. Merkt is instructor in industry at the Wharton School, University of Pennsylvania.

J. Royce Miles has accepted an appointment as instructor in economics and business administration at the College of Commerce, Louisiana State University.

John U. Nef of the University of Chicago has been promoted to a full professorship. He spent the summer in Europe chiefly in research among the French archives and in July delivered a paper before the Anglo-American Historical Conference.

Fred R. Niehaus has left Washburn College to accept a position as assistant professor of finance in the School of Business, University of Colorado.

William A. Nielander, formerly of the Agricultural Adjustment Administration, has been appointed associate professor of marketing at the University of Texas.

Oswald Nielsen has joined the staff of the Division of Economic Research in the United States Bureau of Foreign and Domestic Commerce.

Arthur E. Nilsson, associate professor of economics at Oberlin College, is on leave of absence for the year 1936-37 in order to serve as head security analyst for the Securities Exchange Commission.

Grover A. J. Noetzel is economist with the National Bureau of Economic Research (in coöperation with the National Research Project) survey on changing industrial technique.

Eleanor L. O'Brien has become a member of the faculty of the School of Commerce of the University of Denver.

Howard S. Piquet, economist with the United States Tariff Commission, is adjunct professor of economics at the Graduate School of American University.

Rex Ragan of the University of Southern California gave a course in federal tax procedure at Stanford University during the autumn quarter.

Fredlyn Ramsey is instructor in economics at Goucher College.

B. U. Ratchford, assistant professor of economics at Duke University, is on leave of absence during the academic year 1936-37.

Elizabeth Redden has been promoted to the rank of assistant professor of economics and sociology at Goucher College.

Fred Ritchie of Princeton University has been appointed assistant professor of economics at DePauw University.

David Rozman of Massachusetts State College has been appointed consultant to the Massachusetts State Planning Board.

Raymond I. Rubinow has joined the department of economics at Swarthmore College as instructor.

Edward C. Simmons of Wayne University is instructor in money and banking at the University of Michigan.

Raymon T. Smeltz is instructor in business administration at the State College of Washington.

T. R. Snavely of the University of Virginia served as consultant to the Tennessee State Planning Commission during the past summer and prepared a report for the Commission on the finances of the state government of Tennessee.

Tillman M. Sogge has left the University of Minnesota to become a member of the research staff of the Social Security Board in Washington, D.C.

John Y. Springer has resigned as instructor in economic statistics at Stanford University in order to accept a position as assistant professor of economics at Duke University.

C. P. Spruill, professor of economics at the University of North Carolina, has been appointed dean of the General College at that institution.

W. Mackenzie Stevens has returned to the College of Commerce at the Louisiana State University as professor of marketing and finance.

George Stigler of the University of Chicago has been appointed assistant professor at Iowa State College.

Claude W. Stimson has left the Bureau of Business and Social Research of the University of Denver to be head of the department of economics at Knox College.

Craig T. Stockdale of Princeton and Cornell Universities has been appointed instructor in the department of economics at Ohio State University.

Ernst W. Swanson, formerly of the staff of Drake University, has been appointed assistant professor of business administration at the State College of Washington.

W. Lou Tandy has resigned his position as professor of economics and sociology at the College of the Ozarks to become assistant professor of economics at the University of New Mexico.

Lorie Tarshis is instructor in economics at Tufts College.

Arthur R. Tebbutt is director of the Bureau of Business Research at Brown University.

Harold H. Thurlby has been appointed acting associate professor of economics at Oberlin College.

V. P. Timoshenko has gone from the United States Department of Agriculture to the Food Research Institute at Stanford University.

Royal S. Van de Woestyne, professor of economics and chairman of the department of economics at Knox College, is on leave this year and is lecturer in economics at Northwestern University.

Hugh Wales is instructor in marketing at the University of Kansas.

E. S. Wallace is instructor in economics at Duke University for the present academic year.

George A. Warfield has resigned as dean of the School of Commerce of the University of Denver. He will continue as professor of economics.

Weldon Welfling will have charge of the work of B. U. Ratchford at Duke University.

Wilford L. White, professor of marketing at the University of Texas, has had his leave of absence extended in order to permit him to continue as chief of the Marketing Research Division of the United States Bureau of Foreign and Domestic Commerce.

Brayton F. Wilson is professor of economics and head of the department of economics at Tufts College.

R. S. Winslow has been promoted from instructor to assistant professor of economics at the University of North Carolina.

Edwin E. Witte has been appointed chairman of the department of economics at the University of Wisconsin, to succeed Harry Jerome.

T. W. Worsley of the University of Virginia is an instructor in economics at the School of Commerce, University of Georgia.

Two Important Revisions

Deibler's PRINCIPLES OF ECONOMICS. *New second edition*

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